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7 SUPERIOR COURT OF WASHINGTON FOR KING COUNTY

8 OLYMPIA OFFICE, LLC, a New York limited  
9 liability company; WA PORTFOLIO, LLC, a  
10 Delaware limited liability company;  
11 MARINERS PORTFOLIO, LLC, a Virginia  
12 limited liability company; and SEAHAWK  
13 PORTFOLIO, LLC, a Florida limited liability  
14 company,

15 Plaintiffs,

16 v.

17 MLMT 2005-MCP1 WASHINGTON OFFICE  
18 PROPERTIES, LLC, a Washington limited  
19 liability company; MIDLAND LOAN  
20 SERVICES, a division of PNC BANK, N.A.;  
21 RAINIER FORECLOSURE SERVICES, INC.,  
22 a Washington corporation; JSH PROPERTIES,  
23 INC., a Washington corporation,

24 Defendants.

NO. 17-2-31354-8 SEA

DECLARATION OF DAVID M.  
CHUDZIK, PH.D., MAI

25 I, David M. Chudzik, Ph. D., MAI, declare,

1. I am a certified general real estate appraiser and Vice President of Kidder  
Mathews Valuation Advisory Services (“**Kidder Mathews**”) with offices located at 601 Union  
St, Suite 4720, Seattle, WA 98101. My career summary, educational background, professional  
licenses and affiliations are attached to the Appraisals.

DECLARATION OF DAVID M. CHUDZIK, PH.D., MAI - 1

**Williams, Kastner & Gibbs PLLC**  
601 Union Street, Suite 4100  
Seattle, Washington 98101-2380  
(206) 628-6600

6255823.1

**EXHIBIT D**

2. I submit this declaration in support of the Property Owners' Motion for Preliminary Injunction. I was previously retained and provided valuations for the Property Owners in connection with the bankruptcy proceeding pending in the United States Bankruptcy Court for the Eastern District of New York.

3. Kidder Mathews prepared appraisals (the "**Appraisals**") for real properties located at, and known as, (i) 5000 Capital Boulevard Southeast, Tumwater, WA 98502; (ii) 640 Woodland Square Loop Southeast, Lacey, WA 98503; (iii) 637 Woodland Square Loop Southeast, Lacey, WA 98503; (iv) 629 Woodland Square Loop Southeast, Lacey, WA 98503; (v) 4565 7th Avenue Southeast, Lacey, WA 98503; (vi) 645 Woodland Square Loop Southeast, Lacey, WA 98503; (vii) 805 South Mission Street, Wenatchee, WA 98801; (viii) 8830 25<sup>th</sup> Avenue Southwest, Seattle, WA 98106; and (ix) 1620 South Pioneer Way, Moses Lake, WA 98837. The Moses Lake, WA property has since been sold. The remaining eight properties comprise the "**Real Properties.**" The attached appraisals were completed on January 1, 2017.

4. True and correct copies of the Appraisals attached as **Exhibits A-H** to this Declaration. The following chart shows the values of each of the Real Properties as reflected in the Appraisals:

<b>Real Property Address</b>	<b>Valuation</b>
805 S. Mission Street Wenatchee, Washington 98801	\$4,700,000.00
629 Woodland Square Loop SE Lacey, Washington 98503	\$1,950,000.00
637 Woodland Square Loop SE Lacey, Washington 98503	\$3,100,000.00
640 Woodland Square Loop SE Lacey, Washington 98503	\$13,200,000.00
645 Woodland Square Loop SE Lacey, Washington 98503	\$930,000.00
4565 7th Avenue South Lacey, Washington 98503	\$7,300,000.00
5000 Capitol Boulevard Tumwater, Washington 98502	\$7,900,000.00
8830 25th Avenue SW Seattle, Washington 98106	\$2,900,000.00

DECLARATION OF DAVID M. CHUDZIK, PH.D., MAI - 2

**Williams, Kastner & Gibbs PLLC**  
601 Union Street, Suite 4100  
Seattle, Washington 98101-2380  
(206) 628-6600

6255823.1

# Exhibit A

Appraisal Report

Wenatchee Building | Wenatchee, WA

as of January 1, 2017



Prepared for

Seahawk Portfolio, LLC, Mariners  
Portfolio, LLC, WA Portfolio, LLC, and  
Olympia Office, LLC

Scott Switzer

Prepared by

David Chudzik, Ph.D., MAI

Crosby Nordblom

KM Job A16-0972

**Kidder Mathews**

**Valuation Advisory Services**

601 Union Street, Suite 4720  
Seattle, WA 98101

206.205.0200 | Fax 206.205.0220  
dchudzik@kiddermathews.com  
kiddermathews.com

November 1, 2016

Mr. Scott Switzer  
Seahawk Portfolio, LLC, Mariners Portfolio, LLC, WA Portfolio, LLC, and Olympia Office, LLC  
10900 4th Ave., Suite 2300  
Bellevue, WA 98004

Re: Wenatchee Bldg 2 / 805 S. Mission St.  
805 S. Mission St.  
Wenatchee, WA 98168

Dear Mr. Switzer:

At your request, we have prepared an appraisal of the above-referenced property, which is fully described in the attached appraisal report. As requested, we have estimated the market value of the subject, with an effective appraisal date of January 1<sup>st</sup>, 2017. This value is based on the extraordinary assumption that all remaining property improvements will be completed and paid in full by the end of 2016, as indicated by the receiver. We have inspected the subject property and obtained data regarding other similar real estate in the area.

This report has been prepared in conformance with the current Uniform Standards of Professional Appraisal Practice (USPAP). In addition, our services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA). This report is intended for purposes related to negotiating and restructuring mortgage loans related to the subject, to be used by the client (Seahawks Portfolio LLC, Mariners Portfolio LLC, WA Portfolio LLC, and Olympia Office LLC).

As a result of our investigation and analysis, we have concluded that the market value of the leased fee interest in the subject real estate, subject to the limiting conditions and assumptions contained herein, is:

*Prospective Market Value, Leased Fee, as of January 1, 2017* ..... **\$4,700,000**

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'David Chudzik'.

David Chudzik, Ph.D., MAI  
State-certified General Real Estate  
Appraiser #1102099

A handwritten signature in blue ink, appearing to read 'Crosby Nordblom'.

Crosby Nordblom  
State-Registered Real Estate Trainee  
Appraiser #1001854

DC-CN/em

## Certification

We certify that, to the best of our knowledge and belief:

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- 3) We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- 8) We have made a personal inspection of the property that is the subject of this report.
- 9) We have not provided professional appraisal or consulting services concerning the subject property within the past three years.
- 10) No one provided significant real property appraisal assistance to the persons signing this certification.
- 11) The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute and conforms with the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA).
- 12) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 13) As of the date of this report, David Chudzik, Ph.D., MAI, has completed the continuing education program for Designated Members of the Appraisal Institute, and Crosby Nordblom, Practicing Affiliate, has completed the Standards and Ethics Education Requirement of the Appraisal Institute for Practicing Affiliates.



David Chudzik, Ph.D., MAI  
State-certified General Real Estate  
Appraiser #1102099



Crosby Nordblom  
State-Registered Real Estate Trainee  
Appraiser #1001854

## Limiting Conditions

Limiting conditions specific to this appraisal are:

- 1) Physical dimensions for the property were taken from public records or from information provided, and the appraisers assume no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
- 2) We are assuming that there are no hidden or unapparent conditions of the property, subsoil, or structures (including asbestos, soil contamination, or unknown environmental factors) that render it more or less valuable. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.
- 3) No responsibility is assumed for the legal description or for matters including legal or title considerations.
- 4) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 5) The appraisers are not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made.
- 6) The allocation of total value to land, buildings, or any fractional part or interest as shown in this report, is invalidated if used separately in conjunction with any other appraisal.
- 7) Valuation Advisory Services is a subsidiary of Kidder Mathews, a full service commercial real estate brokerage firm. On occasion, employees or agents of the firm have interests in the property being appraised. When present, interests have been disclosed, and the report has been made absent of any influence from these parties.

### RESTRICTION UPON DISCLOSURE & USE:

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the appraisers. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraisers.

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# Summary of Appraisal

## Summary of Appraisal

**Identity of Property** 805 S. Mission St.  
Wenatchee, WA 98168

**Property Description** The subject is a single-story, office building in Wenatchee, WA, located at the southern end of downtown. It has good access and receives strong exposure along S. Mission St. The 1988, masonry structure contains 28,383 sq ft of rentable area and is currently in average condition with a new roof to be installed in late 2016. It is fully occupied by a single government tenant, DSHS, which has a strong historical tenancy at the property and is leased through November 2018 at \$18.50 on a modified gross basis. Overall, it has a functional office layout with some service-oriented components, typical for a DSHS operation.

The subject is situated on a single parcel, zoned SWBD (South Wenatchee Business District) by the City of Wenatchee. Parking is ample at a ratio of 4.44 stalls/1,000 sq ft of rentable area.

**ADDRESS** 805 S. Mission St.  
Wenatchee, WA 98168

**ASSESSOR'S TAX  
PARCEL NUMBER** 222010410050

**LEGAL DESCRIPTION** The legal description of the subject property is as follows:

*TOWNSHIP 22N RANGE 20EWM SECTION 10 PART OF NESE  
ACRES 2.2800*

**Ownership History** Per public records, the property is collectively owned by a group of LLCs – Seahawk Portfolio, LLC (30%), Mariners Portfolio, LLC (10%), WA Portfolio, LLC (30%), and (30%) Olympia Office, LLC. Title was transferred to these entities through a quitclaim deed on September 23<sup>rd</sup>, 2016 from CDC Properties I, LLC for a recorded amount of \$0. This is not considered to be a true real estate sale.

On March 9<sup>th</sup>, 2016, the process to foreclose on the subject was started and a notice of trustee's sale was issued on July 5<sup>th</sup>, 2016. It was to sell at public auction on October 21<sup>st</sup>, 2016, but the new owner entity has postponed this process with a stay of foreclosure.

There have been no other sales or listings of the property in the past five years that were reported by the current owners or noted in public records.

**Property Rights  
Appraised**

This is an appraisal of the leased fee estate. The definition of “leased fee estate” is as follows:

*The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires.*

Source: The Dictionary of Real Estate Appraisal, Sixth Edition. Chicago: Appraisal Institute, 2015.

**Purpose of Appraisal**

The purpose of this appraisal is to estimate the market value of the subject property. The term “Market Value” is defined as:

*The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date, and the passing of title from seller to the buyer under conditions whereby:*

- a. the buyer and seller are typically motivated;*
- b. both parties are well informed or well advised, and acting in what they consider their own best interests;*
- c. a reasonable time is allowed for exposure in the open market;*
- d. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [g].

**Scope of Work**

The subject property is appraised based on the following scope of work.

- The subject is a 99,317 sq ft parcel. It is improved with a single-story, office structure originally built in 1988. An inspection of the property was completed on October 13, 2016.

- This appraisal utilizes the extraordinary assumption that the remaining property improvements will be completed and paid in full by the end of 2016, as indicated by the receiver. The effective appraisal date of this report is January 1, 2017.
- In this report, the Sales Comparison and Income Capitalization Approaches are used. The Cost Approach is not employed as typical market buyers and sellers would not use this approach in valuing buildings like the subject.
- The research of data included both general and specific data. Sources of general data that are included in the market trends and neighborhood description were obtained from various private and governmental sources.
- Specific data concerning the subject was obtained from various sources including the owner (leases, income statements, environmental reports, title report, and rent roll) and the Chelan County Assessor (zoning, assessed values and real estate taxes).
- Data compiled in the analysis of the building sales was obtained from CoStar, CBA (Commercial Broker Association), as well as Kidder Mathews' own in-house data files. Rental data was obtained from leasing agents, public records, and in-house data files on competing properties.
- All of the sales and rental data were confirmed with a party involved in the transaction and/or through public records.
- The reconciliation and final value opinion(s) is based on an overview of which approach or approaches we believe are the best indicators of value for the subject.

**Intended Use/User(s)** This report is to be used by the client (Seahawk Portfolio, LLC, Mariners Portfolio, LLC, WA Portfolio, LLC, and Olympia Office, LLC) with regards to purposes related to negotiating and restructuring mortgage loans related to the subject.

<b>Approaches to Value &amp; Final Value</b>	Prospective Market Value, Leased Fee, as of January 1, 2017	
<b>Conclusion</b>	Sales Comparison Approach	\$4,550,000
	Income Capitalization Approach	\$4,700,000
	Value Conclusion	\$4,700,000

**Extraordinary Assumptions** This report utilizes the extraordinary assumption that the remaining property improvements will be completed and paid in full by the end of 2016, as indicated by the receiver. This includes a roof replacement, totaling \$185,000. It is also assumed that no significant market changes will take place between today and the effective date of value.

**Hypothetical Conditions** None

**Date of Report** November 1, 2016

**Date of Last Inspection** October 13, 2016

**Effective Date of Appraisal** January 1, 2017

**Marketing Time** 6 to 12 Months

**Exposure Time** 6 to 12 Months



Aerial Map

## Subject Photographs

View of subject from across S.  
Mission St., looking east



View looking south along S.  
Mission St.



View looking north along S.  
Mission St.



## Subject Photographs

View of subject on the right,  
looking west along Bridge St.



View of subject's eastern edge  
along alleyway



View of subject looking west  
along Benton St.



## Subject Photographs

View of subject's western face



View of subject's southern face



View of subject's eastern face



## Subject Photographs

Interior view of subject



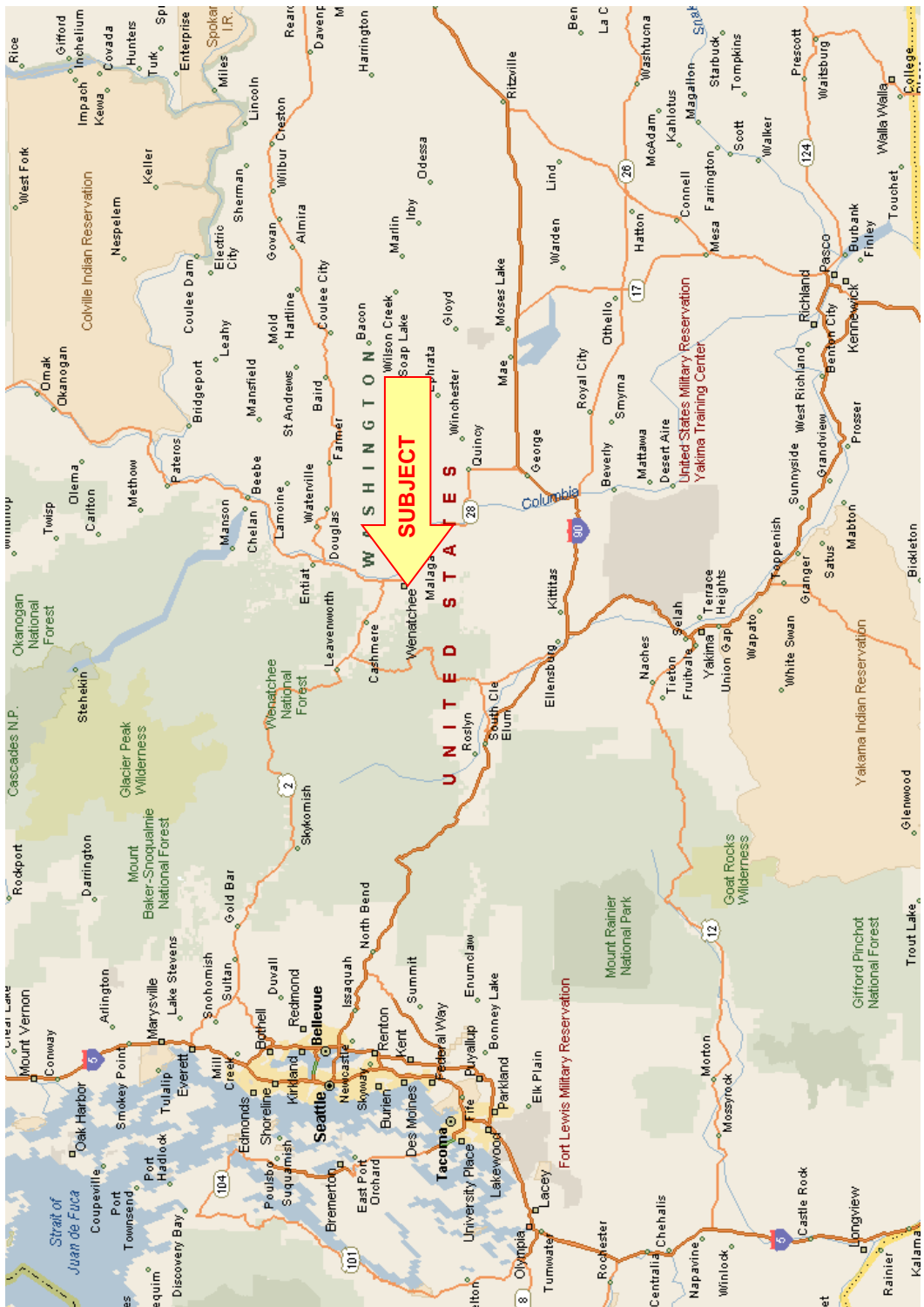
Additional, interior view of subject



Additional, interior view of subject



# Market Overview



Regional Map

## Regional Overview

### Introduction

The subject property is situated in Wenatchee, the economic hub of the Chelan and Douglas County region. The following discussion discusses the regional trends within the Wenatchee MSA.

Wenatchee is situated along the west shores of the Columbia River. Directly east is the city of East Wenatchee and Douglas County. The region is often referred to as the Chelan/Douglas County region, as well as the Wenatchee MSA. A map on the facing page identifies the location of the subject within the state.

The region is situated in North Central Washington, which lies on the eastern slope of the Cascade Mountains. It is bounded by Skagit, Snohomish, and Kittitas counties to the west and south; Grant County to the east and southeast; and Okanogan County to the north. Roughly 90% of the Chelan County's area is within the Wenatchee National Forest, with the extreme northern portion situated in the North Cascades National Park. The bulk of the topography is dominated by dense, rugged, and mountainous terrain. The remaining area is in low-lying valleys.

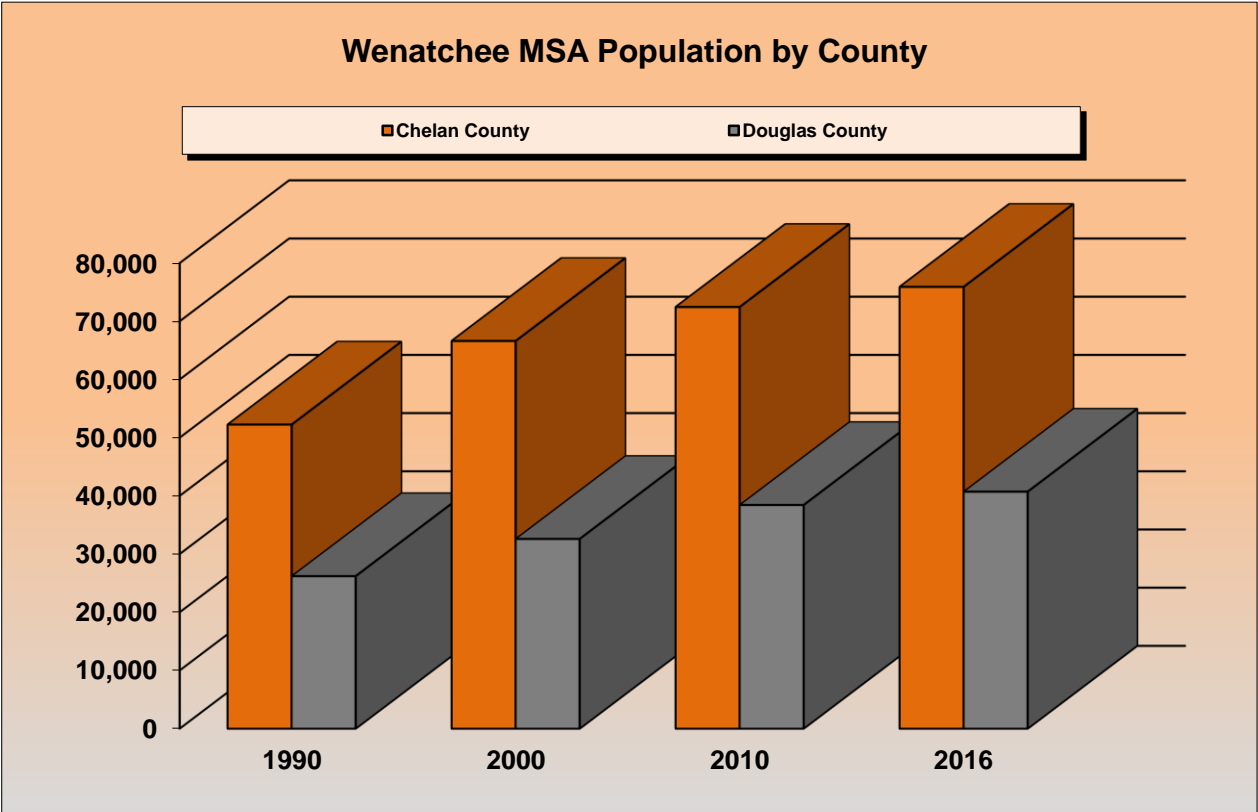
Because of its higher elevation, Chelan County gets its share of water from precipitation and melting snow runoffs from the mountains. Several small rivers flow into Lake Wenatchee. The Wenatchee River flows from there and continues southeast before joining the Columbia River near Wenatchee. The other significant body of water is Lake Chelan, approximately 40 miles northeast of Wenatchee. This is a 55-mile long lake with depths up to 1,500 feet.

By contrast, Douglas County's terrain is one of hills and canyons along the western portion, while the central and eastern parts are mostly rolling hills and flat open land. There are numerous lakes in the county, many of which were formed by backwaters from dams on the county's western border.

Four significant forces influence real property values within a region: social (population demographics), economic, government and environmental. The following sections will discuss these four forces in more detail.

Population

According to the Washington State Office of Financial Management, the total population of the Wenatchee MSA (Chelan and Douglas Counties) in 2016 is estimated at 116,630, or 1.62% of the state total (7,183,700). An overview of historic population trends since 1990 is introduced in the following chart.



Source: WA State Office of Financial Management and U.S. Census Bureau

With its current population estimated at 75,910, Chelan County is by far the most populous segment of the two counties. Its population increased 2.75% annually during the 1990s; but slowed significantly during the 2000s at 0.88% annually. Douglas County’s annual growth rate during the 1990s was slightly lower at 2.44%, but was more than double Chelan County’s rate during the 2000s at 1.79%. By comparison, both Counties grew at a faster rate than the State during the 1990s but only Douglas County exceeded the State’s annual growth rate during the 2000s. Since 2010, population growth at the state and county levels is down, a reflection of the economic recession that slowed net migration into the Counties as well as the State. Population trends for both Chelan and Douglas Counties since 1990 are detailed in the following table, juxtaposed with Washington State.

**Population Trends**

<b>Population</b>	<b>1990</b>	<b>2000</b>	<b>2010</b>	<b>2016</b>
Washington State	4,866,663	5,894,143	6,724,540	7,183,700
Chelan County	52,250	66,616	72,453	75,910
Douglas County	26,205	32,603	38,431	40,720
Two-County Total	78,455	99,219	110,884	116,630
'% of State Pop.	1.61%	1.68%	1.65%	1.62%

<b>Growth</b>	<b>1990-00</b>	<b>2000-10</b>	<b>2010-16</b>
Washington State	1,027,480	830,397	459,160
% Annual Change	2.11%	1.41%	1.14%
Chelan County	14,366	5,837	3,457
% Annual Change	2.75%	0.88%	0.80%
Douglas County	6,398	5,828	2,289
% Annual Change	2.44%	1.79%	0.99%
Two-County Total	20,764	11,665	5,746
% Annual Change	2.65%	1.18%	0.86%

<b>Net Migration</b>	<b>1990-00</b>	<b>2000-10</b>	<b>2010-16</b>
Washington State	644,778	450,332	240,380
'% of Pop. Growth	62.8%	54.2%	52.4%
Chelan County	10,124	2,037	1,863
'% of Pop. Growth	70.5%	34.9%	53.9%
Douglas County	4,096	3,473	946
'% of Pop. Growth	64.0%	59.6%	41.3%
Two-County Total	14,221	5,510	2,810
'% of Pop. Growth	68.5%	47.2%	48.9%

As seen in the table, population growth in both Counties during the 1990s was due primarily to net migration, which has accounted for between roughly 60-70% of total growth. During the 2000s, net migration slowed down, which also accounts for the drop in population growth over the past decade. By way of comparison, net migration only accounted for 55-63% of population growth for Washington State. Although there is no decisive evidence to explain the greater influx of new residents to region, it is generally considered the result of Chelan County's recreational amenities, particularly Lake Chelan that has attracted some retirees to the region, along with its much lower cost of housing and living. As noted previously, net migration has slowed considerably between 2010 and 2016 at the state and county levels, but has improved over the past two years as the economy has improved. Net migration in the two-county region improved from 43.0% through 2015 to 48.9% through 2016.

**Economic Forces –  
Wenatchee MSA**

Agriculture is a predominant feature of both counties. Washington is the number one producer of apples, sweet cherries, and pears in the nation. One of every four jobs in the two-county region is on a farm. Tree fruit production is labor intensive; it always has been and most likely will be for a long time into the future. Fruit production is a cyclical industry. The apple industry struggled during the mid 2000s, but more recently has been faring much better, particularly within the past two years.

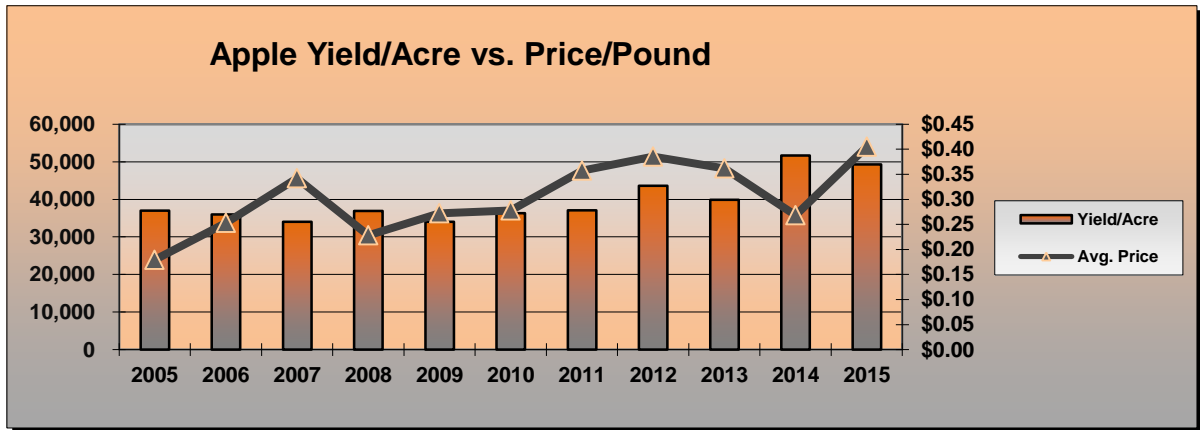
**Agricultural Trends**

An influential agricultural crop in Yakima is apples. It is ranked first in the State, followed by the Columbia Basin and Wenatchee. Combined, these three regions represent 95% of the total apple acreage for the entire state. Statewide, total acreage of apples peaked in 1997 at over 204,000 acres, but has declined to 167,488 acres as of January 2011. Between 1997 and 2011, both Yakima Valley and Wenatchee total acreage in apples has declined, while the Columbia Basin has increased. The reasons vary for the decline, but it is partly due to conversion of older orchards into wineries as well as other fruit-bearing trees such as cherries and pears. The majority of the acres are Red Delicious apples (43,379 acres). Of the 167,488 acres, 148,000 acres are bearing apples.

**APPLES**

When the softening demand for Red Delicious occurred several years ago, apple growers realized that other varieties were becoming more popular and thus the trend toward planting the different varieties. At one point, Red Delicious represented nearly one-half of the apple acreage in the State. Today, it represents nearly 26% of the total acreage followed by Gala (19.6%), Fuji/Red Fuji (16.5%) and Granny Smith (11.1%). Another apple variety that has seen more plantings in recent years is the Honeycrisp. Long-term, this should help the apple growers remain competitive in the global economy as many of these trees are now starting to be more fully productive.

According to a July 2016 report prepared by the USDA/NASS (U.S. Department of Agriculture/National Agricultural Statistical Services), the 2015 production of apples in the U.S. was 10.0 billion pounds, a decrease of 15.3% from 2014. The lower harvest is due to drought conditions. Washington State, which had a record harvest year in 2014 with 7.65 billion pounds harvested, saw its production drop 22.2% to 5.95 billion pounds. The State continues to be the leading producer of apples at nearly 60% of the total US production. While there are many factors that affect price, one major element is supply. This is best visually seen in the following graph that shows the trends in average price and yield per acre.



The graph above clearly shows a correlation between yield per acre and average price. In 2011, and 2012, while Washington apple production was up in both years, the price actually increased in 2011 before dropping slightly in 2012. The increase in 2011 was due to weather related issues that affected production in other states. Value of production for 2012 totaled \$2.48 billion up 28% from 2011.

Washington's production in 2013 was down from 2012, and pricing was also down from \$0.385/pound to \$0.362/pound, which is an anomaly with both production and pricing down. However, the record 2014 harvest pushed pricing down to \$0.267/pound, which is consistent with historical trends. With the drop in production in 2015, the price increased to \$0.405/pound.

### Non Agricultural Employment

The following tables summarize the nonagricultural employment in the county since 2008, as compiled by the Washington State Labor Market and Economic Analysis Branch. Note, 2008 marked the pre-recession employment peak for the region.

**Non-Agriculture Employment in Wenatchee MSA (2008-2015)**  
(Chelan-Douglas Counties)

Industry Sector	2008	2009	2010	2011	2012	2013	2014	2015
Natural Resources & Mining	3,100	2,300	2,000	2,000	1,800	1,900	2,100	2,500
Manufacturing	2,300	2,100	2,100	2,300	2,400	2,500	2,500	2,700
Transportation, Warehousing & Utilities	3,300	3,300	3,200	3,300	3,900	3,700	3,600	3,900
Retail Trade	6,100	5,800	5,800	5,800	5,800	5,700	5,700	6,100
Leisure & Hospitality	5,400	5,000	5,200	5,200	5,400	5,300	5,600	6,100
Education & Health Services	5,800	5,900	5,900	5,800	5,800	6,400	6,700	6,900
Services-Other	5,300	5,500	5,200	5,400	5,300	5,200	5,700	5,900
Government	9,100	8,900	8,800	8,800	8,700	8,600	8,700	8,900
<b>Total NonFarm Employment</b>	<b>40,400</b>	<b>38,800</b>	<b>38,200</b>	<b>38,600</b>	<b>39,100</b>	<b>39,300</b>	<b>40,600</b>	<b>43,000</b>

Source: Washington State Employment Security Department; Numbers represent annual averages

**Changes by Sector in Wenatchee MSA Aug 16 vs Aug 15**

Industry Sector	2016	2015	Year over Year	
			No Chg.	% Chg.
Natural Resources & Mining	2,400	2,500	(100)	-4.0%
Manufacturing	2,700	2,800	(100)	-3.6%
Transportation, Warehousing & Utilities	4,400	4,000	400	10.0%
Retail Trade	6,300	6,300	0	0.0%
Leisure & Hospitality	6,700	6,700	0	0.0%
Education & Health Services	7,100	6,800	300	4.4%
Services-Other	5,800	6,400	(600)	-9.4%
Government	9,000	8,800	200	2.3%
<b>Total NonFarm Employment</b>	<b>44,400</b>	<b>44,300</b>	<b>100</b>	<b>0.2%</b>
Civilian Labor Force	67,379	65,483	1,896	2.9%
Resident Employment	63,631	62,283	1,348	2.2%
Unemployment	3,748	3,200	548	17.1%
Unemployment Rate	5.6%	4.9%	0.7	13.8%

*Source: Washington State Employment Security Department*

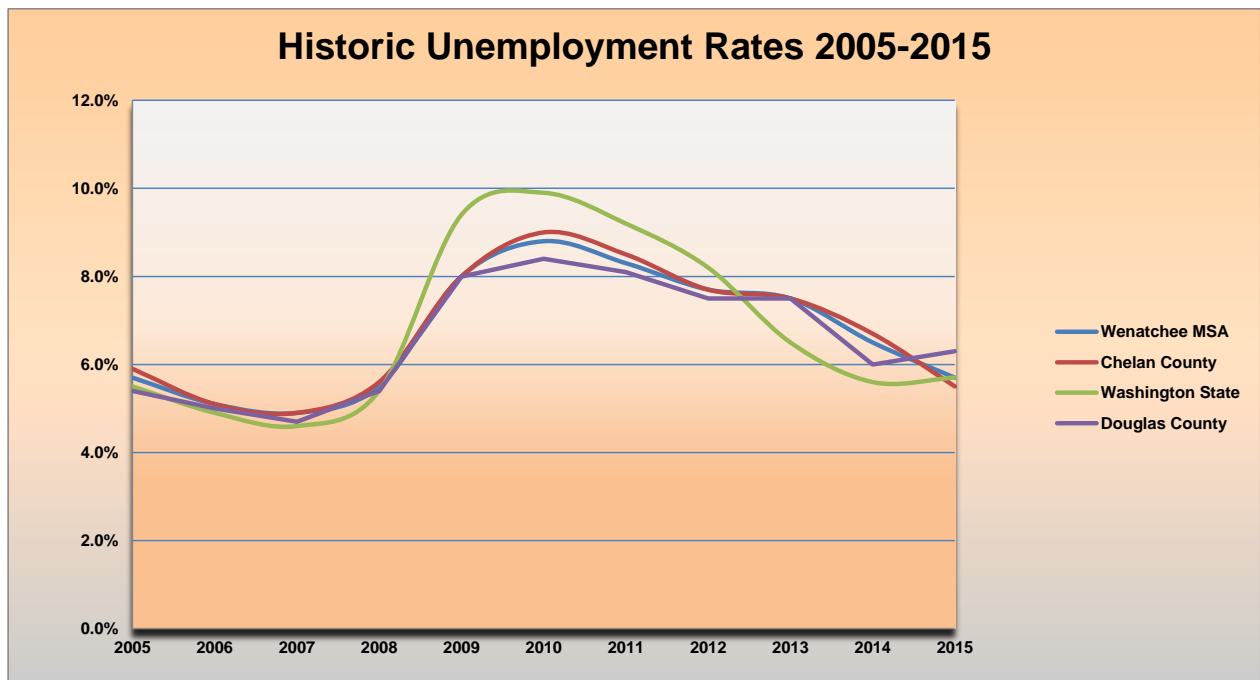
The region had seen some steady growth prior to the recession, peaking in 2008 at 40,400 jobs within the region. At the peak (pre-recession), Government led the way with 22.5% of the region's jobs, followed by Retail Trade (15.1%), Education & Health Services (14.4%), Leisure & Hospitality (13.4%), and Services-Other (13.1%). The region saw a loss in jobs of 2,200 between 2008 and 2010 before starting to show improvement and recovery from the downturn. Natural Resources & Mining, which also includes Construction, lost the most with 1,100 jobs, followed by Government and Retail Trade (300 jobs each). The only sector that gained jobs was Education & Health Services at + 100 jobs.

Post recession, the region has gained back 2,400 jobs and surpassed the peak recession level by the end of 2014 with 40,600 non-agricultural jobs. Positive job growth continued in 2015 with the annual average non-agricultural employment now at 43,000 jobs, an increase of 2,400. The sectors who have had the highest growth and exceeding their pre-recession high include Education & Health Services with a net gain of 1,100 jobs, followed by Leisure & Hospitality (+700 job), Transportation Warehousing & Utilities and Other Services (net gain of 600 jobs each), and Manufacturing (+ 400 jobs). Two sectors who have not yet gained back all of the jobs lost include Natural Resources & Mining (still down 600 jobs), and Government (down 200 jobs).

The more current picture is showing some sustained job growth, but year over year, the gain is only a modest growth. Year over year non-farm employment (August 2015 to August 2016) is up only 100 jobs with

Transportation, Warehousing & Utilities (+400 jobs), Education & Health Services (+300 jobs) and Government (+200 jobs) leading the way, which helped offset losses in Services-Other (-600 jobs), Natural Resources & Mining (-100 jobs), and Manufacturing (-100 jobs). Retail Trade and Leisure & Hospitality both had no change in jobs.

**Unemployment Rate** According to the Washington State Labor Market and Economic Analysis, the unemployment rate as of August 2016 is at 5.6%, a 70 basis point increase from a year ago. This compares to the State's 5.4% unemployment, an increase of 200 basis points from the prior year. The reason why unemployment is up despite the increase in jobs over the past year is due to the higher number of individuals re-entering the job market and seeking work. This increased the total labor force by 1,896 while resident employment increased by 1,348. The unemployment rate trend since 2005 is summarized in the following chart.



Source: Washington State Workforce Explorer

According to a report prepared by the Port of Chelan, the top 10 employers (by number of employees) with operations currently headquartered within the region are ranked as follows:

**Major Employers in Wenatchee MSA**

	<b>Company</b>	<b>Business Type</b>	<b>Employees</b>
1	Stemilt Growers, Inc.	Agriculture	3,024
2	Wenatchee Valley Medical Center	Health Care	1,697
3	Central Washington Hospital	Health Care	1,456
4	Wenatchee School District	Education	1,027
5	McDougall & Sons, Inc.	Agriculture	900
6	Chelan PUD #1	Utilities	640
7	Eastmont School District	Education	610
8	Crunch Pak	Processing	500
9	Custom Apple Packers	Agriculture	497
10	ALCOA	Manufacturing	465

Source: Port of Chelan

**Retail Trade**

Another measure of how well the economy is performing is in the retail trade and more particular, spending by consumers. Overall, Wenatchee and East Wenatchee are the economic hubs of the region. In Wenatchee, the majority of the retail development has been on the north end, particularly big box retailers of Walmart and Home Depot as well as an older community center anchored by Target. The area's regional mall is located in East Wenatchee. It is the Wenatchee Valley Mall, and is anchored by Macy's, Bed Bath & Beyond, Ross, and Sears. In addition, there are numerous neighborhood shopping centers anchored by grocery chains such as Safeway and Fred Meyer. Communities such as Chelan and Leavenworth also generate substantial retail spending due to their popularity as tourist destinations.

The following table summarizes taxable retail sale spending in the region since 2009 as well as a comparison YTD through the first quarter 2016 versus 2015 results.

**Taxable Retail Sales  
Chelan-Douglas Counties  
2009-2015**

	2009	2010	2011	2012	2013	2014	2015
<b>Chelan County</b>							
Unincorporated	\$308,168,891	\$283,589,208	\$319,113,753	\$332,341,589	\$404,073,364	\$484,970,434	\$543,164,596
% Change	-15.5%	-8.0%	12.5%	4.1%	21.6%	20.0%	12.0%
Cashmere	\$31,283,090	\$31,108,465	\$31,970,303	\$37,022,873	\$47,021,310	\$44,591,116	\$41,870,438
% Change	3.4%	-0.6%	2.8%	15.8%	27.0%	-5.2%	-6.1%
Chelan City	\$131,694,542	\$123,406,758	\$123,793,975	\$134,448,018	\$147,289,682	\$161,335,814	\$171,845,352
% Change	-14.6%	-6.3%	0.3%	8.6%	9.6%	9.5%	6.5%
Entiat	\$6,881,759	\$5,891,251	\$7,304,660	\$9,354,218	\$8,804,620	\$12,941,649	\$14,214,291
% Change	-30.9%	-14.4%	24.0%	28.1%	-5.9%	47.0%	9.8%
Leavenworth	\$97,415,458	\$106,415,269	\$108,209,137	\$110,055,143	\$123,503,500	\$130,900,322	\$137,972,508
% Change	-5.2%	9.2%	1.7%	1.7%	12.2%	6.0%	5.4%
Wenatchee	\$729,310,292	\$768,935,592	\$717,802,578	\$702,019,769	\$723,996,201	\$763,730,511	\$874,469,743
% Change	-16.3%	5.4%	-6.6%	-2.2%	3.1%	5.5%	14.5%
<b>Total-Chelan County</b>	<b>\$1,304,754,032</b>	<b>\$1,319,346,543</b>	<b>\$1,308,194,406</b>	<b>\$1,325,241,610</b>	<b>\$1,454,688,677</b>	<b>\$1,598,469,846</b>	<b>\$1,783,536,928</b>
% Change	-14.9%	1.1%	-0.8%	1.3%	9.8%	9.9%	11.6%
<b>Douglas County</b>							
Unincorporated	\$145,082,670	\$156,381,321	\$180,461,924	\$191,179,971	\$317,384,264	\$375,642,094	\$373,627,395
% Change	-56.1%	7.8%	15.4%	5.9%	66.0%	18.4%	-0.5%
Bridgeport	\$5,628,964	\$5,524,328	\$8,286,878	\$7,263,305	\$9,774,295	\$8,126,327	\$7,088,781
% Change	-4.7%	-1.9%	50.0%	-12.4%	34.6%	-16.9%	-12.8%
East Wenatchee	\$314,179,247	\$311,474,374	\$325,449,866	\$355,238,856	\$376,463,372	\$392,248,846	\$401,519,342
% Change	-2.1%	-0.9%	4.5%	9.2%	6.0%	4.2%	2.4%
Mansfield	\$2,672,595	\$1,654,926	\$2,031,919	\$2,807,454	\$3,197,219	\$2,855,868	\$2,001,091
% Change	5.5%	-38.1%	22.8%	38.2%	13.9%	-10.7%	-29.9%
Rock Island	\$4,937,924	\$7,261,797	\$5,415,377	\$7,116,102	\$4,909,416	\$5,106,957	\$6,348,515
% Change	25.1%	47.1%	-25.4%	31.4%	-31.0%	4.0%	24.3%
Waterville	\$7,410,048	\$6,007,647	\$6,432,301	\$6,399,471	\$8,051,636	\$7,587,381	\$7,284,658
% Change	12.9%	-18.9%	7.1%	-0.5%	25.8%	-5.8%	-4.0%
<b>Total Douglas County</b>	<b>\$479,911,448</b>	<b>\$488,304,393</b>	<b>\$528,078,265</b>	<b>\$570,005,159</b>	<b>\$719,780,202</b>	<b>\$791,567,473</b>	<b>\$797,869,782</b>
% Change	-28.4%	1.7%	8.1%	7.9%	26.3%	10.0%	0.8%
<b>Two-County Total</b>	<b>\$1,784,665,480</b>	<b>\$1,807,650,936</b>	<b>\$1,836,272,671</b>	<b>\$1,895,246,769</b>	<b>\$2,174,468,879</b>	<b>\$2,390,037,319</b>	<b>\$2,581,406,710</b>
% Change	-19.0%	1.3%	1.6%	3.2%	14.7%	9.9%	8.0%

Source: Washington Department of Revenue

**Taxable Retail Sales  
Chelan-Douglas Counties  
2016 versus 2015  
1st Quarter**

	2016	2015	% Change
<b>Chelan County</b>			
Unincorporated	\$149,196,038	\$89,400,423	66.9%
Cashmere	\$9,384,958	\$8,511,238	10.3%
Chelan City	\$28,231,954	\$26,547,104	6.3%
Entiat	\$2,029,225	\$4,670,812	-56.6%
Leavenworth	\$26,262,449	\$23,219,173	13.1%
Wenatchee	\$203,470,156	\$177,907,035	14.4%
<b>County Total</b>	<b>\$418,574,780</b>	<b>\$330,255,785</b>	<b>26.7%</b>
<b>Douglas County</b>			
Unincorporated	\$79,335,122	\$67,824,189	17.0%
Bridgeport	\$1,568,807	\$1,615,692	-2.9%
East Wenatchee	\$88,211,647	\$86,945,557	1.5%
Mansfield	\$454,966	\$549,632	-17.2%
Rock Island	\$1,453,341	\$1,461,808	-0.6%
Waterville	\$1,819,357	\$1,468,225	23.9%
<b>County Total</b>	<b>\$172,843,240</b>	<b>\$159,865,103</b>	<b>8.1%</b>
<b>Two-County Total</b>	<b>\$591,418,020</b>	<b>\$490,120,888</b>	<b>20.7%</b>

Source: Washington Department of Revenue

As seen in the table above, taxable retail sales declined by 19% in 2009 with the hardest hit seen in Douglas County (-28.4%), while Chelan's drop was nearly half that at -14.9%. The region saw modest improvement starting in 2010 and has been increasing each year since. The first three years (2010 through 2012) saw modest increases of 1.3%, 1.6%, and 3.2% respectively. 2013 saw a significant jump in retail spending at a 14.7% increase with a 9.9% and 8.0% increases in 2014 and 2015 respectively. While Douglas County took the hardest hit in 2009, it saw the biggest increase in 2013 at 26.3% compared to Chelan County at 9.8%. As noted in the table above, the 1<sup>st</sup> quarter of 2016, year over year retail sales spending is up 20.7% for the region, with Chelan County growing by 26.7%, while Douglas County grew by 8.1%.

#### **Governmental Forces**

Local counties are governed by a County Executive/County Council structure, whose jurisdiction is all unincorporated areas within each county. Each county government oversees the assessment and collection of property taxes and other special assessments, public safety, planning, development, land use, public works, judicial matters, and public health.

Cities within the region typically have a Mayor/City Council form of government. Similar to the county government, the city government oversees building codes and permits, land use (zoning), public safety, public works, public health and judicial matters.

Governmental forces have affected real property values in the area of wetlands. While there are no comprehensive state wetland laws in Washington, most local municipalities have regulations regarding wetlands. In addition, each city attempts to accomplish the Federal mandate of a "no net loss" goal through mitigation, a process, which includes possible creation of new wetlands and can be very expensive, and possibly deterring potential development.

#### **Environmental Forces**

Environmental forces that affect property values include climatic conditions, topography, natural barriers, transportation systems and surrounding property uses. The region is well known for its arid climate (approximately 10 inches of precipitation per year). The Cascade Mountains to the west act as a barrier to the moisture brought in by ocean winds. The region experiences colder winters with approximately 37 inches of snow per season.

The region also has an abundance of waterways, such as the Columbia and Wenatchee Rivers, Lake Chelan and other lakes serve as natural

barriers to development. Overall, these water barriers have not limited the county's ability to develop an adequate transportation system, particularly within the incorporated cities.

## Regional Real Estate Trends

### COMMERCIAL MARKET

**Retail:** Since the end of 2007, CoStar began tracking vacancy and absorption trends of multi-tenant properties (owner-user properties are excluded) in the Wenatchee MSA. According to CoStar, the two-county region's supply totals 4.7 million sq ft in 349 buildings. Present vacancy (3<sup>rd</sup> Quarter 2016) is at 1.6% with no sub-lease availabilities. The vacancy is slightly lower from the prior quarter (1.7%) and 190 basis points lower than the end of 2015. Year-to-date absorption was a positive 92,091 sq ft for 2016 (through the first nine months). According to CoStar, there are no projects under construction. Current average asking rent is \$14.08/sq ft, triple-net. Depending on quality, location, age, retail rents will vary from about \$10 to the low \$20s/sq ft. The average asking rent has varied from \$13.32/sq ft to \$14.64/sq ft over the past 12 months.

Most of the new development has occurred in the north end of Wenatchee as well as in East Wenatchee. At the north end of Wenatchee are big box retailers such as Walmart and Home Depot. The area's regional mall is located in East Wenatchee. It is the Wenatchee Valley Mall, and is anchored by Macy's, Bed Bath & Beyond, Ross, and now Marshalls and Sportsman's Warehouse, which replaced Sears. In addition, there are numerous neighborhood shopping centers anchored by grocery chains such as Safeway, Fred Meyer and the like. Hobby Lobby leased the old Top Food space in East Wenatchee in 2012 and Big Lots leased the portion of the old Kmart that was partially repositioned for a local theater user.

**Office:** See Office Market Overview Section of this report.

**Industrial:** CoStar tracks 71 buildings totaling 1.03 million sq ft in the two-county region. As of the 3<sup>rd</sup> Quarter 2016, total vacancy is at 2.7%, unchanged from the prior quarter and down 80 basis points from the end of 2015. Net absorption in the 3<sup>rd</sup> quarter of 2016 was zero, but totaled a positive 8,500 sq ft in the prior quarter. Absorption was a positive 35,260 sq ft in 2015. The average asking rent is \$0.55/sq ft, triple-net, unchanged over the past six months. We note that the vacancy rate is likely lower as the supply as tracked by CoStar excludes owner-user facilities, which represent the majority of industrial properties in the region.

Many of these are significantly larger in size (50,000 sq ft to over 300,000 sq ft) and are predominantly fruit processing facilities.

**RESIDENTIAL  
MARKET**

This segment consists of the multi-family and single-family markets. According to the Washington Center for Real Estate Research, home resales in Chelan County totaled 930 homes during the 1<sup>st</sup> Quarter 2016 a decrease of 5.1% over the prior quarter but 126.8% higher from a year ago. The median price of homes is \$270,200, a decrease of 2.6% over the previous year. Douglas County sale of existing homes (530 homes during the 1<sup>st</sup> Quarter 2016) is 1.9% lower from the prior quarter but up from a year ago by 44.4%. Median price of homes is at \$253,900, up 2.2% from a year ago. The average apartment rental rate in the two-county region as of March 2016 was \$1,078 and a vacancy rate of 2.0%, compared to \$798 and 1.4% vacancy from six months ago.

**Conclusion**

The region is a mixture of diverse activity including agriculture (fruit production), a steady growing nonagricultural work base, and an abundance of recreational amenities. While agricultural is prone to significant up and downturns, long-term, it is believed it will compete well in a shrinking globe. Population and employment growth has been steady since 1990. Employment has been and will continue to be cyclical. As such, long term, the outlook for the region is one of continued modest growth, which appears to be happening at this time.

# Office Market Overview

## Wenatchee MSA Office Submarket

Quarter	Inventory Bldgs	Inventory SF	Vacant SF Total	Vacant Percent Total	Net Absorption SF Total	Deliveries Bldgs	Deliveries SF	Under Construction Bldgs	Under Construction SF	Office Base Rent Overall
QTD	133	1,474,256	19,472	1.30%	3,187	0	0	0	0	\$12.72/NNN
2016 Q3	133	1,474,256	22,659	1.50%	(631)	0	0	0	0	\$13.63/NNN
2016 Q2	133	1,474,256	22,028	1.50%	5,243	0	0	0	0	\$14.17/NNN
2016 Q1	133	1,474,256	27,271	1.80%	3,082	0	0	0	0	\$15.51/NNN
2015 Q4	133	1,474,256	30,353	2.10%	1,756	0	0	0	0	\$15.54/NNN
2015 Q3	133	1,474,256	32,109	2.20%	9,633	0	0	0	0	\$15.06/NNN
2015 Q2	133	1,474,256	41,742	2.80%	17,909	0	0	0	0	\$15.10/NNN
2015 Q1	133	1,474,256	59,651	4.00%	(4,790)	0	0	0	0	\$15.09/NNN
2014 Q4	133	1,474,256	54,861	3.70%	2,200	0	0	0	0	\$15.84/NNN
2014 Q3	133	1,474,256	57,061	3.90%	(255)	0	0	0	0	\$16.05/NNN
2014 Q2	133	1,474,256	56,806	3.90%	7,836	0	0	0	0	\$15.74/NNN
2014 Q1	133	1,474,256	64,642	4.40%	(19,483)	0	0	0	0	\$15.52/NNN
2013 Q4	133	1,474,256	45,159	3.10%	9,367	0	0	0	0	\$15.28/NNN
2013 Q3	133	1,474,256	54,526	3.70%	5,930	0	0	0	0	\$15.18/NNN
2013 Q2	133	1,474,256	60,456	4.10%	446	0	0	0	0	\$14.89/NNN
2013 Q1	133	1,474,256	60,902	4.10%	17,758	0	0	0	0	\$14.98/NNN
2012 Q4	133	1,474,256	78,660	5.30%	13,800	0	0	0	0	\$14.86/NNN
2012 Q3	133	1,474,256	92,460	6.30%	(2,585)	0	0	0	0	\$15.04/NNN
2012 Q2	133	1,474,256	89,875	6.10%	(8,212)	0	0	0	0	\$14.37/NNN
2012 Q1	133	1,474,256	81,663	5.50%	5,689	0	0	0	0	\$15.28/NNN
2011 Q4	133	1,474,256	87,352	5.90%	(11,501)	0	0	0	0	\$15.26/NNN
2011 Q3	133	1,474,256	75,851	5.10%	(38,775)	0	0	0	0	\$15.00/NNN
2011 Q2	133	1,474,256	37,076	2.50%	(19,600)	0	0	0	0	\$15.66/NNN
2011 Q1	133	1,474,256	17,476	1.20%	8,825	1	7,000	0	0	\$16.29/NNN
2010 Q4	132	1,467,256	19,301	1.30%	1,984	0	0	1	7,000	\$16.34/NNN
2010 Q3	132	1,467,256	21,285	1.50%	800	0	0	1	7,000	\$16.46/NNN
2010 Q2	132	1,467,256	22,085	1.50%	1,114	0	0	1	7,000	\$15.78/NNN
2010 Q1	132	1,467,256	23,199	1.60%	2,875	0	0	0	0	\$15.83/NNN

# Office Market Overview

## Introduction

The competitive forces that shape supply and demand for office space are outlined in the following discussion of the local office market. The subject is specifically located within the Wenatchee MSA office submarket, consisting of Douglas and Chelan Counties.

## Wenatchee MSA Office Submarket

CoStar estimates the multi-tenant office supply for the two-county region at 1.47 million sq ft in 133 buildings. This has remained largely unchanged over the last decade with the exception of the 393,000 sq ft, 2008 delivery of the Intergate Columbia data center in East Wenatchee. Only 13,000 sq ft of traditional office space has been added since 2007 and no projects are currently under construction.

## Market Vacancy and Absorption

Current vacancy (3<sup>rd</sup> Quarter 2016) is 1.5%, unchanged from the prior quarter and 60 basis points lower from the end of 2015 after absorbing 10,881 sq ft YTD. Despite the national recession, the submarket's vacancy rate remained below 2% until 2011 when the market gave back 61,051 sq ft. Vacancy continued to climb for a year, peaking at 6.3% in Q3 of 2012. Since then the market has improved consistently, averaging just above 16,000 sq ft of annual absorption between 2013 and 2015.

## Rental Rates

Leasing activity has been positive, but limited due to an already low vacancy rate. The average rental rate for office is \$13.63/sq ft, compared to \$14.17/sq ft from the last quarter. Overall, the average asking rental rate is down slightly over the past 12 months, but it has been historically steady between \$14/sq ft and \$16/sq ft. It is important to note that Costar rates can vary greatly depending on size and quality of build-outs, especially in a smaller submarkets. Most offices are usually one to two stories and smaller than the subject.

## Conclusion

The Wenatchee MSA submarket has remained quite healthy over the last decade and through the recent recession. With improving employment, low vacancy, and no forecasted construction, the outlook for the subject's submarket is generally positive.

### Absorption, Deliveries, Vacancy



Source: CoStar – October 2016

# Property Description



Parcel Map

## Property Description

### Introduction

The subject is a single-story, 28,383 sq ft office building in Wenatchee, WA. It was built in 1988 and is occupied by a single government tenant, DSHS. It is located along S. Mission St. at the southern end of Wenatchee's commercial corridor.

### Identity of Property

Name: Wenatchee Building

Location: 805 S. Mission St.

City: Wenatchee

Parcel Number: 222010410050

Liens and Encumbrances: We have been provided with a Title Report prepared by First American Title Insurance Company and dated August 22, 2016. Typical utility easements are noted in the report. Our evaluation presumes the site is absent significant easements or encumbrances.

The improvements are fully lease by a single tenant, DSHS, through November of 2018.

### SIZE & SHAPE

The subject's single parcel is a slightly irregular square along S. Mission St. It occupies the full block between Bridge St. and Benton St., contained to the east by an alleyway. According to the Chelan County Assessor, it contains 2.28 acres of land area.

### STREETS, ACCESS & EXPOSURE

S. Mission St. is a two-way street with two lanes of traffic in each direction as well as a turning lane. The street is improved with curbs and lighted sidewalks. To the north and south, Bridge St. and Benton St. are two-way, lower traffic roads with basic improvements and street parking. Curb cuts are present on both these roads, providing access to the subject. Overall accessibility and visibility is good with direct access to downtown Wenatchee to the north and the Senator George Sellar Bridge to the south, providing easy access to East Wenatchee.

### TOPOGRAPHY & SOIL CONDITIONS

This site is level and functional, but the neighborhood slopes moderately to the east. As a result, the subject sits slightly below S. Mission St. and approximately 10-feet above the alley to the east.

We were not provided with any soils reports and we assume the soils are adequate to support any building improvements that might represent the highest and best use of the site. No obvious signs of settling were noted upon inspection; however, this should not be construed as a guarantee that the soils are adequate.

**UTILITIES** All normal public utilities are available to the subject site.

**ASSESSOR'S INFORMATION** The assessed value is 75% of our value conclusion of \$4,700,000.

### Real Estate Tax Analysis

APN # 222010410050

Year	Assessed Values						Levy Rate
	Total	Land	Building	Taxes	Fees	Total	
2016	\$3,514,998	\$695,218	\$2,819,780	\$41,170.93	\$8.54	\$41,179.47	\$11.712931
2015	\$3,597,933	\$695,218	\$2,902,715	\$42,373.98	\$6.45	\$42,381.43	\$11.777312

**ZONING** The site is zoned SWBD (South Wenatchee Business District) by the City of Wenatchee. This is intended to promote a wide variety of commercial structures and permits non-ground floor residential and light manufacturing uses. The subject's current office use is a legal, conforming use.

**CONCLUSION** In summary, the site characteristics are similar to other properties in the immediate vicinity. There are no site conditions known to the appraisers that have a negative impact on the value or marketability of the subject site.

### Description of Improvements

**INTRODUCTION** The site is improved with an average quality, class "C" office building. It is currently in average condition and includes 28,383 sq ft of rentable area.

**PHYSICAL AGE** The building was constructed in 1988 and has an estimated effective age of 20 years.

**FRAMING & EXTERIOR** The foundation is poured in-place concrete slab on grade. The roof is a flat membrane and is to be replaced by the end of 2016. The structure features basic brick walls/façade, covered entrance with brick pillars, and continuous, reflective windows around the structure.

**INTERIOR FINISH**

The interior is built-out for single tenant office use. There is a large customer reception/waiting room at the front of the building with a few offices, private rooms, and bathrooms, typical of a DSHS tenant. The building's core has open office layout with minimal partitioning. Lining the edge of the structure are a number of private offices, as well as a conference room, lunchroom, staff rooms, and restrooms. The primary entrance is at the northwest corner of the structure, with additional doors on the east and south faces.

Interior finishes include painted gypsum wallboard, ceiling tiles, fluorescent lighting, carpet and vinyl tiles. Heating and cooling is by forced air units with distribution suspending on the ceiling. The building is sprinklered. The building design is functional for office use, although its larger entrance/waiting room caters more towards users with a service component.

**SITE IMPROVEMENTS  
& PARKING**

The site outside the building footprint is improved with an asphalt parking lot that surrounds the building. This provides roughly 126 parking stalls, which equates to 4.44 spaces per 1,000 sq ft. The property features moderate landscaping along the building and street frontage, including a variety of trees and shrubs.

**CONDITION &  
FUNCTIONAL UTILITY**

The building is in average condition and is currently best suited for single-tenant office users.

# Highest & Best Use

# Highest & Best Use

“Highest & Best Use” is defined by the Appraisal Institute as:

*The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.*

*Source: The Dictionary of Real Estate Appraisal, Sixth Edition. Chicago: Appraisal Institute, 2015.*

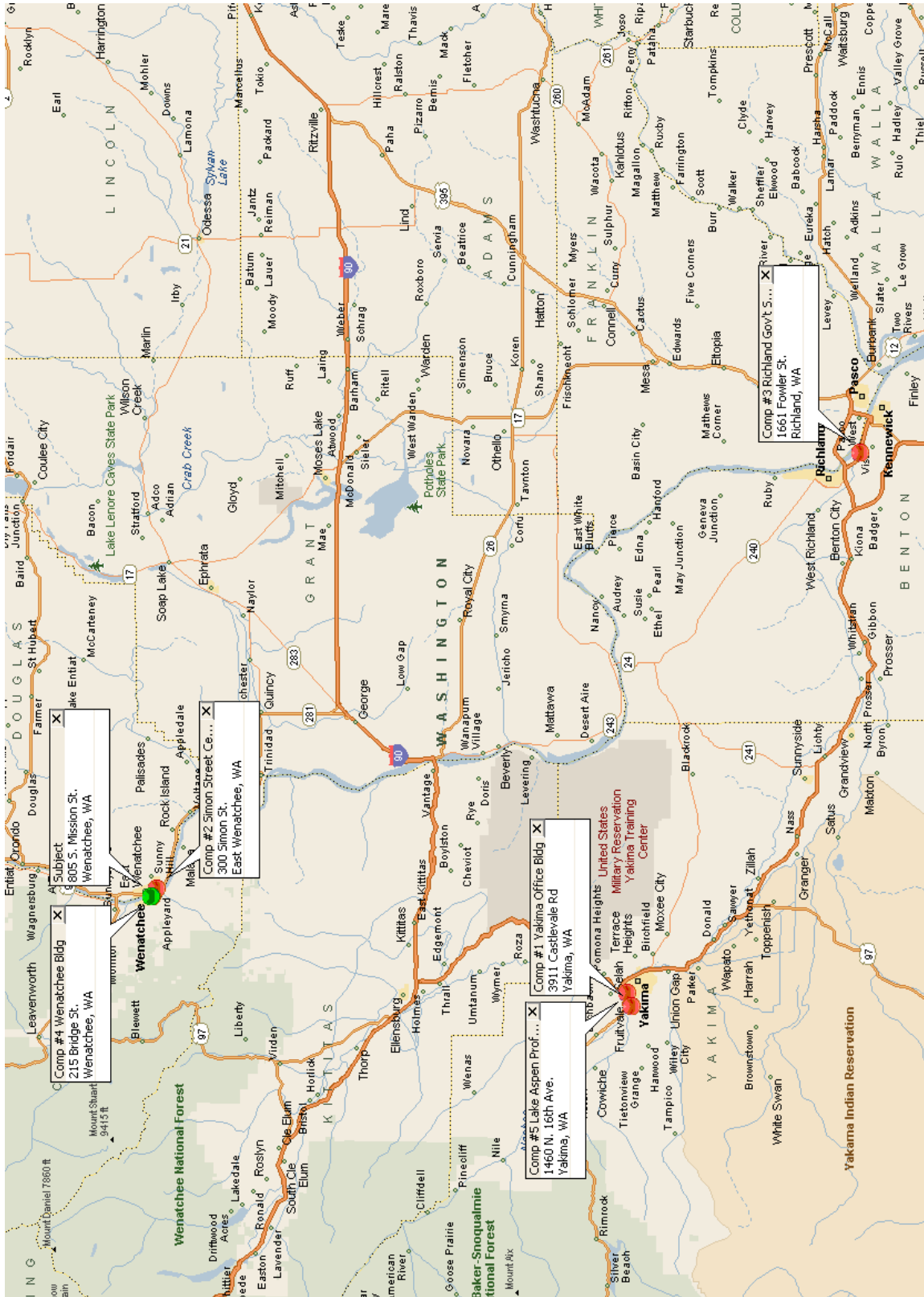
## **As if Vacant**

The subject is zoned SWBD (South Wenatchee Business District) by the City of Wenatchee. This is intended to promote a wide variety of commercial structures and permits non-ground floor residential and light manufacturing uses. The subject’s size, shape, and topography are sufficiently conducive to support a variety of uses. Surrounding property uses include fuel stations, automotive shops, various retail stores, offices, as well as some grandfathered-in single-family home uses. In recent years, development has been limited to owner-user and build-to-suit projects, mostly retail/restaurant developments in northern Wenatchee and East Wenatchee. While there are some proposed offices, these are all waiting for tenants to prelease and speculative developments remain unseen. The highest and best use of the site as if vacant is for commercial use, as dictated by demand and market conditions.

## **As Improved**

The subject is a single tenant office building, fully leased through November 2018. Existing improvements are in average condition and, as shown later in this report, contribute significant value to the site; therefore, demolition or conversion are not likely. Due to the layout of the subject improvements and current market conditions, an addition is not feasible and renovation would not result in significant increases in rent. As a result, the highest and best use is for continued office use, “as-is.”

# Sales Comparison Approach



## Sales Comparison Map

## Sales Comparison Photographs

### Comparable 1

Yakima Office Building  
3911 Castlevale Road  
Yakima, WA



### Comparable 2

Simon Street Center  
300 Simon St.  
East Wenatchee, WA



### Comparable 3

Richland Gov't Svcs. Building  
1661 Fowler St.  
Richland, WA



## Sales Comparison Photographs

### **Comparable 4**

Wenatchee Building  
215 Bridge St.  
Wenatchee, WA



### **Comparable 5**

Lake Aspen Prof. Building  
1460 N. 16th Ave.  
Yakima, WA



## SALES COMPARISON SUMMARY

No	Name / Location	Year Build	GLA	Land LTB Ratio	Pkg Ratio	Sale Date	Sale Price	Price/SF	\$NOI/SF Cap Rate	Buyer / Seller / Source	Comments												
1.	Yakima Office Bldg 3911 Castlevalle Rd Yakima, WA	2001 Masonry	32,000	121,968 3.81	2.9/Ksf	Mar-16	\$5,560,000	\$174	\$12.16 7.00%	Conover Insurance Abrams Construction  Mike Abrams, Heritage, 509.248.9400	Sale of a 3-story office building in Yakima. The property was 91% occupied ATOS, but buyer was tenant intending to occupy vacancy. It sold at a reported 7% cap rate. Leasable area adjusted down from 35K sq ft due to inefficient common space and an abnormally high load factor.												
*See Notes																							
2.	Simon Street Center 300 Simon St. East Wenatchee, WA	1998 Masonry	10,210	35,207 3.45	4.0/Ksf	Jan-12	\$1,625,000	\$159	\$11.81 7.42%	Simon St. Building, LLC Merrick Family Trust  Internal Records	Property was fully leased to three office tenants ATOS. 4-5 years remaining on lease terms with annual increases. Buyer was tenant exercising market purchase option.												
3.	Richland Gov't Svcs Bldg 1661 Fowler St. Richland, WA	1995 Masonry	57,937	230,868 3.98	3.0/Ksf	Sep-15	\$6,300,000	\$109	\$9.23 8.49%	SMARTCAP Group, Inc. Henry Earl Estates  Ben Norbe, KM, 253.722.1410	Sale of larger, CTU office building that was 87% leased ATOS with tenants including the Dept. of Revenue, Dept. of Transportation, and DSHS. Listing price was \$6.8M.												
4.	Wenatchee Bldg 215 Bridge St. Wenatchee, WA	1974 Masonry	10,800	29,621 2.74	6.0/Ksf	Jan-16	\$1,250,000	\$116	NA NA	Confluence Health CDC Properties, LLC  Ben Norbe, KM, 253.722.1410	Same former owner as the subject. Owner-user purchased the property during receivership. Adjacent to subject and of a very similar age and condition.												
5.	Lake Aspen Prof. Building 1460 N. 16th Ave. Yakima, WA	1983 Wood	19,891	90,605 4.56	2.9/Ksf	Jul-14	\$3,425,000	\$172	\$13.78 8.00%	Individual Jerry & Dorothy Davis  Daniel Tilley, Broker, 509.248.9400	Sale of a multi-tenant office building along Lake Aspen that was fully occupied ATOS. Building was in good condition and the transaction was between investors.												
<table border="1"> <tr> <td>Subject</td><td>805 S. Mission St. Wenatchee, WA</td><td>1988 Masonry</td><td>28,383</td><td>99,317 3.50</td><td>4.4/Ksf</td><td>Appraisal Rounded</td><td>\$4,541,280 \$4,550,000</td><td>\$160 \$160</td><td colspan="3"></td></tr> </table>												Subject	805 S. Mission St. Wenatchee, WA	1988 Masonry	28,383	99,317 3.50	4.4/Ksf	Appraisal Rounded	\$4,541,280 \$4,550,000	\$160 \$160			
Subject	805 S. Mission St. Wenatchee, WA	1988 Masonry	28,383	99,317 3.50	4.4/Ksf	Appraisal Rounded	\$4,541,280 \$4,550,000	\$160 \$160															

# Sales Comparison Approach

## Introduction

The Sales Comparison Approach is based on the premise that market value of the property is directly related to recent sale prices of competitive properties and the availability of substitute properties with similar utility and desirability. The most similar sales of properties are investigated and compared to the subject in this analysis. These comparables are summarized in the table on the facing page. Photographs and a location map are presented on previous pages.

Five improved sale comparisons were selected that are reasonably similar to the subject, indicating a range in value of \$109/sq ft to \$174/sq ft. Most are well-leased office buildings in central Washington, ranging from approximately 10k to 58k sq ft in rentable area. One sale, directly south of the subject, was vacant at the time of sale. Sale dates vary from January 2012 to March 2016, but the historical strength of the submarket indicates mostly minor adjustments for market conditions. Other adjustments to comparable sales include adjustments for sale condition, age/condition, LTB ratio/parking, size, function, and tenancy.

The high end of the range (No. 1 at \$174/sq ft) is the March 2016 sale of a 2001 vintage office building with minimal vacancy. It was purchased by a tenant, Conover Insurance, who intended to occupy the remaining 9% of the building themselves. This is one of the better quality office buildings in the area, although the leasable area was adjusted slightly downward from 35,000 sq ft based on the broker's indication of abnormally wide hallways and inefficient common areas. The similarly priced, July 2014 sale (No. 5 at \$172/sq ft) represents a slightly older, 19,891 sq ft building in Yakima, but it was in good condition and fully occupied by multiple medical office users at the time of sale. The property also benefits from waterfront views along Lake Aspen. Overall, the subject would warrant a slightly lower price per square foot than these sales.

The low end of the range is market by two comparables (No. 3 at \$109/sq ft and No. 4 at \$116/sq ft). No. 3 is the sale of a 57,937 sq ft office building in Richland Junction that was 87% leased at the time of sale. While it was primarily leased by government entities, the building has unfavorable parking and is of an inferior, CTU construction. No. 4 was the January 2016 sale of a 10,800 sq ft, Wenatchee office building of very similar condition and construction as the subject, located directly to the south. However, the building was vacant at the time of sale and was under receivership with added motivation to sell. These comparables indicate a significantly higher price for the subject.

The most similar sale to the subject is comparable 2 (\$159/sq ft), located across the Columbia River in East Wenatchee. This is the January 2012 sale of a two-story, 1998 office building. Its 10,210 sq ft were leased by three office tenants with 4 to 5 years remaining on their leases. It was purchased by a tenant that exercised a market priced purchase option. While of a slightly newer construction, its aged sale date and equivalent functionality indicate similar pricing for the subject. Primary weight is placed on this sale.

**Conclusion**

Overall, considering all factors, the market value of the leased fee interest in the subject as of January 1, 2017 is estimated at:

28,383 sq ft x \$160/sq ft = \$4,550,000 (Rounded)

# Income Capitalization Approach

# Income Capitalization Approach

## Introduction

The Income Capitalization Approach is based on the precept that an income-producing property is typically purchased as an investment, and therefore the earning power of the asset is critical to understanding the property's value. This approach is developed by analyzing the property's income and expenses over the following base year to forecast the most probable net operating income (NOI). The estimated NOI is then capitalized at a market-derived capitalization rate to arrive at a price an investor might be willing to pay for the property. Data used in this approach includes a mixture of general and specific information resources. There are two methods typically used to indicate value: direct capitalization and yield capitalization (discounted cash flow analysis). In this case, direct capitalization is the most relevant and therefore used in this report.

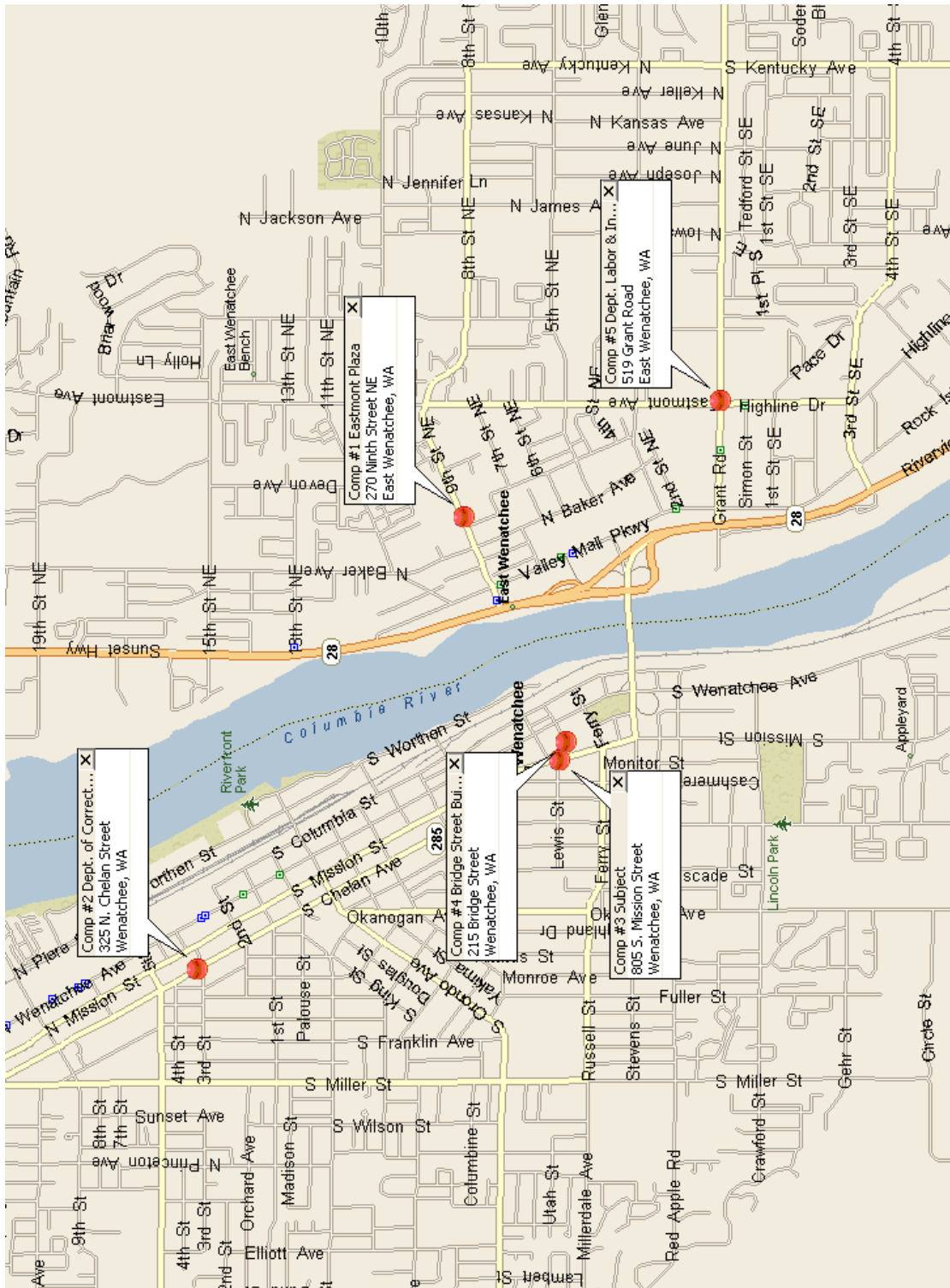
## Existing Lease Encumbrance (Contract Rent)

The subject is fully leased by a single government tenant, DSHS, which has a strong historical occupancy at the property. They signed a 5-year renewal in 2013 through November of 2018 at a flat rate of \$18.50/sq ft on a modified gross basis, with the tenant paying for utilities, garbage collection, and janitorial expenses. No TI allowance was awarded upon renewal, but the landlord was required to complete typical property maintenance and repairs on the building, typical of government leases.

No.	Tenant	Size	% of RA	Current Term		Rental Rates				TI\$/sf	Comments
				Begin	End	Begin	Monthly	\$/sf	% Incr.		
1	DSHS	28,383	100.00%	Dec-13	Nov-18	Dec-13	\$43,757.13	\$18.50	Flat	Minimal	5-Year government lease Tenant only pays for utilities, garbage and janitorial Has an option to renegotiate lease for add'l 5 years LL had to complete basic property maintenance Executed in the August of 2013

## Comparable Rental Data

In order to determine market rent for the subject property, we have researched the subject's submarket for recent listings and signed leases. We have selected rent comparables from five similar office properties, including the most recent leasing activity within the subject.



## Rent Comparison Map

## Rent Comparison Photographs

**Comparable R-1**  
Eastmont Plaza  
270 Ninth St. NE  
East Wenatchee, WA



**Comparable R-2**  
Dept. of Corrections  
325 N. Chelan St.  
Wenatchee, WA



**Comparable R-3**  
Subject  
805 S. Mission St.  
Wenatchee, WA



## Rent Comparison Photographs

**Comparable R-4**  
Bridge Street Building  
215 Bridge St.  
Wenatchee, WA



**Comparable R-5**  
Dept. Labor & Industries  
519 Grant Road  
East Wenatchee, WA



SUMMARY OF RENT COMPARABLES

No	Name/Address	Age RA (SF) Stories	Tenant Area (SF)	Term	Start Date	Base Year Rent Ann. Escalations	Expenses	TI Allowance Free Rent	Comments/Confirmation
1	Eastmont Plaza 270 Ninth Street NE East Wenatchee, WA	2008 37,936 2-Story	8,211	5 Years	Oct-15	\$20.00 Flat	Mod Gross	Significant 2-Mos	5-year renewal in good quality building. Tenant has no escalations and pays all utilities, garbage, and janitorial. LL required to perform general maintenance repairs. Leased to Employment Sec. Dept. with LL performing significant TI to suite. Tenant must pay \$150K if they don't do 5-yr renewal. <i>Public Records/Lease</i>
			4,594	5 Years	Mar-15	\$20.40 Flat	Mod Gross	Minimal None	Tenant has no escalations and pays all utilities, garbage, and janitorial. LL required to perform general maintenance repairs. Renewal lease with Dept. of Agriculture. <i>Public Records/Lease</i>
2	Dept. of Corrections 325 N. Chelan Street Wenatchee, WA	1980's 8,708 1-Story	4,568	5 Years	Dec-16	\$19.15 Flat	Mod Gross	Minimal None	5-year renewal in good quality building. Tenant has no escalations and pays electricity and janitorial. LL required to perform general maintenance repairs. Leased to the Dept. of Corrections. <i>Public Records/Lease</i>
3	Subject 805 S. Mission Street Wenatchee, WA	1988 28,383 1-Story	28,383	5 Years	Dec-13	\$18.50 Flat	Mod Gross	Minimal None	Tenant only pays for utilities, garbage, and janitorial. Tenant has right to renegotiate lease for 5-year term. LL required to perform general maintenance repairs. <i>Lease Files</i> <i>Public Records/Lease</i>
4	Bridge Street Building 215 Bridge Street Wenatchee, WA	1974 10,800 1-Story	10,800	1 Year	Jul-14	\$20.79 Flat	Mod Gross	None None	5-year renewal in good quality building. Tenant has no escalations and pays utilities and janitorial. Leased to Employment Sec. Dept. <i>Public Records/Lease</i>
5	Dept. Labor & Industries 519 Grant Road East Wenatchee, WA	1999 45,495 1-Story	10,158	5 Years	Apr-16	\$17.01 Flat	Mod Gross	Minimal None	5-year lease renewal in E. Wenatchee. Tenant has no escalations and pays all utilities, garbage, and janitorial. LL required to perform general maintenance repairs. Located in a low exposure/daylight suite in retail center. <i>Public Records/Lease</i>
Subject 805 S. Mission St. Wenatchee, WA		1988 28,383 1-Story	28,383		Appraisal	\$18.00	Mod Gross		

**Comparative  
Analysis**

Rental rates for this property type in Wenatchee can be quoted in a variety of ways, with expenses being reimbursed to different extents. Given the nature of the subject's current lease, we utilize the same modified gross terms in our analysis of the subject and comparables selected.

Six recent leases indicate modified gross rates of \$17.01/sq ft/year to \$20.79/sq ft/year with the same expense reimbursements as the subject with no escalations. The rent comparables reflect terms of one to five years with mostly minimal free rent and TI allowances. Given the current tenant, our comparable search focused on similar leases with government tenants.

The high end of the range is represented by two comparable properties (No.1 and No. 4), leasing at rates just above \$20/sq ft. No. 1 is a recently converted school in superior condition and good positioning in East Wenatchee. Two leases commenced here in 2015 for 4,594 sq ft (\$20.40/sq ft) and 8,211 sq ft (\$20/sq ft). Given the subject's larger size and older construction, it would warrant a lower rental rate. In July of 2014, the Employment Security Dept. signed a 1-year renewal for the 10,800 sq ft office building immediately south of the subject at \$20.79/sq ft. The subject is in very similar condition as the comparable, but the short-term nature of the lease and smaller size indicate a lower lease rate for the subject.

The low end of the range (No. 5 at \$17.01/sq ft) represents an April 2016 lease renewal with the Dept. of Labor & Industries in a retail oriented shopping center in East Wenatchee. It was a smaller, 10,158 sq ft lease, but the suite receives low exposure and little daylight. As such, the subject would warrant a higher rental rate.

Comparable No. 2 (\$19.15/sq ft) is a 4,568 sq ft lease within a single-story, 1980's office building in downtown Wenatchee. While of very similar condition and construction as the subject, the comparable's smaller size and market positioning indicate a lower rate for the subject. Lastly, the subject's DSHS tenant renewed in late 2013 for their 23,383 sq ft suite at \$18.50/sq ft. No free rent was awarded and the landlord was required to make general repairs and maintenance to the building.

Overall, the subject would warrant a rental rate within the lower half of this comparable range at \$17/sq ft to \$19/sq ft.

**Market Rent Estimate**

After considering all of the above information, market rent of the subject is correlated at a flat \$18/sq ft with a typical lease term of five years, minimal free rent, and minor TI allowance. The current contract rent rate of \$18.50/sq ft is about 2.75% above our market rent rate estimate as shown in the following table.

Tenant		%	sq ft	Contract Rent		Market Rent		Contract vs. Market	
				Annual Rent	\$/SF	Annual Rent	\$/SF	Gross	\$/SF
DSHS		100.0%	28,383	\$525,086	\$18.50	\$510,894	\$18.00	\$14,192	\$0.50
	Occupied	100%	28,383	\$525,086	\$18.50	\$510,894	\$18.00	\$14,192	\$0.50
	Vacant	0%							

**Gross Rent Estimate**

The contract rent essentially reflects a market rent rate for the subject and is used in the direct capitalization analysis. For the year ending December 2017, gross rental income is estimated at \$525,086, or \$18.50/sq ft/year.

**Operating Expenses and Recoveries**

As noted previously, contract rent and market rent estimates for the subject are on a modified gross basis with the tenant paying for utilities, garbage collection, and janitorial. In this type of lease arrangement, all other operating expenses are paid by the landlord. Historical expenses at the subject property were not available, so this appraisal relies on expenses from comparable office properties.

Real estate taxes are estimated at \$1.49/sq ft, which is a 2.5% increase from the subject's 2016 tax assessment. Insurance expenses typically range from \$0.20 to \$0.30/sq ft for similar properties, indicating an average expense of \$0.25/sq ft for the subject. Management expenses usually range between 2% and 4% for office properties. Given the subject's single tenant occupancy, a rate of 2.5% is used. Utilities are projected at \$1.50/sq ft based on comparables but are paid by the tenant. Repair and maintenance costs for similar properties typically range between \$0.75/sq ft and \$1.50/sq ft. Considering the subject's historical maintenance, as well as its scheduled roof replacement, these expenses are forecasted at \$1.00/sq ft. Landscaping and security expenses typically range between \$0.20/sq ft and \$0.60/sq ft, indicating \$0.40/sq ft for the subject given its moderate landscaping. Janitorial expenses are also covered by the tenant, but are projected at comparable averages around \$1.00/sq ft. Miscellaneous expenses are projected to be minimal at \$0.05/sq ft.

Recoverable expenses total \$175,574 per year or \$6.19/sq ft.

Non-recoverable expenses are also considered in our analysis, which include reserves and other ownership expenses. These are projected at \$0.20/sq ft, bringing total property expenses projected to \$384,991 per year, or \$6.39/sq ft.

**Vacancy &  
Collection Loss**

A 5% vacancy and credit loss allowance is deducted from the estimated potential gross income. This is above submarket vacancy levels, but is deemed appropriate for traditional investor parameters.

**Direct  
Capitalization**

Direct capitalization is the process of converting the estimated stabilized net operating income into market value using a market derived overall capitalization rate. The overall rate is a ratio of net operating income to sales price, usually determined through recent sale comparisons.

Of the comparables used in the Sales Comparison Approach, four reported capitalization rates ranging between 7.00% and 8.49%. The low end reflects a newer, well-leased office building in Yakima that sold to an owner-user. The high end is marked by a larger office building in Richland that was 87% leased at the time of sale. Given the comparable's government tenancy, yet non-traditional, CTU office structure, the subject would warrant a similar to slightly lower capitalization rate. The subject would also warrant a capitalization rate above the Wenatchee sale at 7.42% considering the comparable's lease terms, size, and newer construction.

We conducted further research for additional sales taking place in the current market for industrial properties. The best and most current market capitalization rate data are outlined in the table below:

**RECENT CAPITALIZATION RATE SUMMARY**

Property Name	City	Age	Bldg SF	Sale Date	Sale Price	Cap Rate
Calbom & Schwab Bldg	Moses Lake	1999	24,829	Listing	\$1,995,000	8.22%
Vista Medical Building	Kennewick	2011	12,618	Apr-16	\$5,400,000	7.78%
Castlevale Pointe Building	Yakima	2001	35,000	Mar-16	\$5,560,000	7.00%
7404 W. Hood Office Building	Kennewick	2005	6,000	Mar-16	\$1,225,000	8.00%
Richland Government Building	Richland	1995	57,937	Sep-15	\$6,300,000	8.49%
Summit Building	Yakima	1999	12,329	Aug-14	\$1,172,100	8.00%
Lake Aspen Professional Bldg	Yakima	1983	19,891	Jul-14	\$3,425,000	9.00%
Vista Park Prof. Building	Kennewick	2010	9,849	Aug-13	\$1,250,000	8.39%
7233 W. Deschutes Medical	Kennewick	2000	9,000	Aug-12	\$1,265,000	7.90%
Simon Street Center	Wenatchee	1998	10,210	Jan-12	\$1,625,000	7.42%
Marineland Medical Building	Kennewick	1978	24,000	Sep-11	\$1,600,000	9.50%
Clearwater Office Building	Kennewick	1975	14,048	Nov-10	\$1,380,000	9.43%
Average						8.26%
Min						7.00%
Max						9.50%

The data show a range of capitalization rates mainly between 7.0% and 9.50% with an average around 8.0%. Even through the recession, capitalization rates remained fairly steady within areas like Wenatchee and the Tri-Cities. The low end represents newer structures in the Tri-Cities with strong occupancy and longer lease terms. The high end represents older structures with weaker market positioning and/or high vacancy.

Overall, the subject would warrant a capitalization rate around the middle of this range.

Another source for capitalization rates are investor surveys. On a national basis, the PwC Investor Survey 3<sup>rd</sup> Quarter 2016 reported the overall capitalization rate range for the Pacific Northwest Office Market at 4.5% to 8.00%. The average is 6.01%, down from 6.16% a year ago and 6.65% three years ago. Overall, rates in the Pacific Northwest Region are trending slightly higher than national rates.

Based upon all the above information and considering the condition of the subject property, an appropriate overall capitalization rate for the subject property is a range of 8.0% to 8.5%. This range was further verified through discussions with local brokers.

A summary of the direct capitalization analysis is shown on the following page:

## Summary of Direct Capitalization Wenatchee Building

Appraiser's Forecast			
INCOME	RA (SF)	FYE Dec '17	\$/SF/Yr
Market Rent	28,383	\$525,086	\$18.50
Reimbursable Expenses	28,383	\$70,958	\$2.50
<b>POTENTIAL GROSS INCOME (PGI)</b>	28,383	\$596,043	\$21.00
<b>VACANCY &amp; COLLECTION LOSS</b>	5.0%	\$29,802	\$1.05
<b>EFFECTIVE GROSS INCOME (EGI)</b>		\$566,241	\$19.95
<b>EXPENSES</b>			
<b>RECOVERABLE</b>			
Real Estate Taxes		\$42,209	\$1.49
Insurance		\$7,096	\$0.25
Management	2.5%	\$14,156	\$0.50
Utilities		\$42,575	\$1.50
Landscaping & Security		\$11,353	\$0.40
Repairs & Maintenance		\$28,383	\$1.00
Janitorial		\$28,383	\$1.00
Miscellaneous		\$1,419	\$0.05
Total Recoverable Expenses		\$175,574	\$6.19
<b>NON-RECOVERABLE</b>			
Replacement Reserves		\$4,257	\$0.15
Legal/Accounting		\$1,419	\$0.05
Total Recoverable Expenses		\$5,677	\$0.20
<b>TOTAL EXPENSES</b>		\$181,250	\$6.39
<b>NET OPERATING INCOME</b>		\$384,991	\$13.56
<b>AS-IS MARKET VALUE</b>			
NOI capitalized at:	8.00%	\$4,812,384	\$170
	8.50%	\$4,529,303	\$160
<b>RECONCILED VALUE</b>	8.19%	\$4,700,000	\$166
<b>(Rounded)</b>			

**Income Approach**      Applying these capitalization rates results in the following market values:  
**Value Conclusion**

8.00%	=	\$4,812,384
8.50%	=	\$4,529,303

We correlate this to a stabilized market value toward the middle of the range at \$4,700,000.

# Reconciliation & Final Value Opinion

## Reconciliation & Final Value Estimate

**Final Value Estimate** The approaches to value utilized in this report have indicated the following values for the subject property:

Cost Approach	N/A
Sale Comparison Approach	\$4,550,000
Income Capitalization Approach	\$4,700,000

The Income Capitalization Approach indicates a value somewhat higher than the Sales Comparison Approach, although both approaches are within a sufficiently narrow range to be considered supportive of one another. The subject is an average quality, single-tenant office building in a Wenatchee, WA, fully occupied by DSHS. Considering the current lease in place, an investor would be the most likely buyer of the subject. An investor would place emphasis on the Income Capitalization Approach.

**VALUE CONCLUSION** Therefore, sole weight is placed on the Income Capitalization Approach. Based on this analysis, the prospective market value of the subject, as of January 1, 2017, is concluded to:

\$4,700,000

# ADDENDUM

# Engagement Letter

September 27, 2016

Scott Switzer of  
Seahawk Portfolio LLC, Mariners Portfolio LLC, WA Portfolio LLC, and Olympia Office LLC  
10900 4<sup>th</sup> Ave., Suite 2300  
Bellevue, WA 98004

*Via e-mail - Scott@snsll.com*

RE: Engagement of Services – Nine Appraisal Reports

Dear Mr. Switzer:

We are pleased to have the opportunity to furnish appraisal services for the nine properties listed below:

- |   |   |
|---|---|
| #1) CD 1-02 FEMA<br>629 Woodland Square Loop, Lacey, WA   | #6) CDC1-15-DSHS<br>640 Woodland Square Loop, Lacey, WA     |
| #2) CDC1-13 Ins Comm<br>5000 Capital - Tumwater, WA       | #7) CDC1-18 DSHS<br>805 S. Mission St., Wenatchee, WA       |
| #3) CDC1 -03 DOC<br>637 Woodland Square Loop, Lacey, WA   | #8) CDC1-16 DSHS<br>1620 Pioneer Way, Moses Lake, WA        |
| #4) CDC 1 - 04 DOL<br>645 Woodland Square Loop, Lacey, WA | #9) CDC1-11 West Seattle<br>8830 25th Ave., SW, Seattle, WA |
| #5) CDC-1-14 Gambling Comm<br>4565 7th Ave. SE, Lacey, WA |   |

The purpose of this letter is to confirm the scope of our services for this engagement, our office practices and policies.

We will prepare the appraisals report using an appraisal process in accordance with the appraisal reporting standards of the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation. It will contain the descriptions, comparative data, analyses, conclusions and exhibits generally considered essential to a documented appraisal report. In addition, our services will comply with and be subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. The intended user of these appraisals is the client. The intended use of these appraisals is for internal purposes of valuing the properties.

The cost of the nine appraisals will be \$ . This fee is based on the scope and timing of our analysis as outlined in this letter. If the scope of analysis changes during the appraisal process, the change could alter the cost. At the stated fee you will receive an electronic copy of the report in PDF format. You may request up to two optional hard copies without additional charge by checking the box by the signature block. Additional hard copies will be available at nominal expense (billed at \$75/hour for administrative staff's time), but it is helpful if we know of your copy requirements at the time we begin work on the project. It is our custom to accept a 50 percent retainer at the time we are authorized to proceed. Payment for our services is due no later than 30 days following delivery of the completed reports. Any past-due accounts bear interest at the rate of 18 percent per year.

Scott Switzer of  
September 27, 2016  
Page 2

Appraisal values will be reported on October 20<sup>th</sup>, 2016 and we anticipate delivery of the reports will be made within six weeks from the date we receive from you a signed copy of this engagement letter authorizing us to proceed.

We do not anticipate that any disputes will arise out of our relationship with you. However, if any dispute should arise about our services or fees or any other aspect of our relationship, we and you agree to seek a fair negotiated resolution. If this is not successful, all disputes shall be resolved by binding arbitration in Seattle under the American Arbitration Association ("AAA") Commercial Arbitration Rules with Expedited Procedures in effect on the date hereof. The arbitrator may award attorneys' fees and costs to the prevailing party.

If you agree with these terms of engagement and wish us to proceed, please sign where indicated below and return the letter together with your check for \$ \_\_\_\_\_ representing the retainer.

Very truly yours,

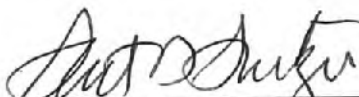
KIDDER MATHEWS



David M. Chudzik, Ph.D., MAI  
Vice President

Check if two hard copy reports are required: ☐

ACCEPTED & AGREED this 27<sup>th</sup> day of September, 2016:

  
Authorized agent for the LLC's

092716 Scott Switzer /sh

# Title Report



## COMMITMENT FOR TITLE INSURANCE

Issued by

### ***FIRST AMERICAN TITLE INSURANCE COMPANY***

First American Title Insurance Company, herein called the Company, for valuable consideration, hereby commits to issue its policy or policies of title insurance, as identified in Schedule A, in favor of the proposed Insured named in Schedule A, as owner or mortgagor of the estate or interest covered hereby in the land described or referred to in Schedule A, upon payment of the premiums and charges therefor; all subject to the provisions of Schedules A and B and to the Conditions and Stipulations hereof.

This Commitment shall be effective only when the identity of the proposed Insured and the amount of the policy or policies committed for have been inserted in Schedule A hereof by the Company, either at the time of the issuance of the Commitment or by subsequent endorsement.

This Commitment if preliminary to the issuance of such policy or policies of title insurance and all liability and obligations hereunder shall cease and terminate six (6) months after the effective date hereof or when the policy or policies committed for shall issue, whichever first occurs, provided that the failure to issue such policy or policies is not the fault of the Company. This Commitment shall not be valid or binding until countersigned by an authorized officer or agent.

IN WITNESS WHEREOF, the Company has caused this commitment to be signed, to become valid when countersigned by an authorized officer or agent of the Company, all in accordance with its By-Laws. This Commitment is effective as of the date shown in Schedule A as "Effective Date."

### ***First American Title Insurance Company***

Dennis J. Gilmore  
President

Jeffrey S. Robinson  
Secretary



***First American Title Insurance Company  
National Commercial Services***

818 Stewart Street, Suite 800, Seattle, WA 98101  
(206)728-0400 - (800)526-7544 FAX (206)448-6348

Lavonne Bowman  
(206)615-3269  
lavbowman@firstam.com

Jessica Bowerman  
(206)615-3049  
jbowerman@firstam.com

To: **Philips International**  
**295 Madison Avenue**  
**New York, NY 10017**

File No.: **NCS-811747-WA1**  
Your Ref No.: **805 Mission Street**

Attn: **Robyn Tuerk, Esq.**

**SCHEDULE A**

1. Commitment Date: August 22, 2016 at 7:30 A.M.

2. Policy or Policies to be issued:

	AMOUNT	PREMIUM	TAX
Basic Rate			
Standard Owner's Policy	\$ To Follow	\$ To Follow	\$ To Follow

Proposed Insured:  
To follow

3. The estate or interest in the land described on Page 2 herein is **Fee Simple**, and title thereto is at the effective date hereof vested in:

CDC Properties I, LLC, a Delaware Limited Liability Company

4. The land referred to in this Commitment is described as follows:

The land referred to in this report is described in Exhibit "A" attached hereto.

## EXHIBIT 'A'

### LEGAL DESCRIPTION:

A TRACT OF LAND BOUNDED ON THE NORTH BY BENTON STREET, BOUNDED ON THE WEST BY MISSION STREET, BOUNDED ON THE SOUTH BY BRIDGE STREET AND BOUNDED ON THE EAST BY AN ALLEY WAY, SAID TRACT OF LAND BEING KNOWN AS THE MISSION STREET PARK,

SAID TRACT OF LAND IS ALSO LOCATED AND DESCRIBED AS FOLLOWS:

THOSE PORTIONS OF BLOCK 7, PEACHEY ADDITION, CHELAN COUNTY, WASHINGTON, ACCORDING TO THE PLAT THEREOF RECORDED IN [VOLUME 1 OF PLATS, PAGES 69-70](#), LYING NORTHERLY OF BRIDGE STREET, EASTERLY OF MISSION STREET AND SOUTHERLY OF BENTON STREET, AS SAID STREETS NOW EXIST, AND LYING WESTERLY OF EASTERLY LINE OF LOTS 7, 8, 9 AND 10, BLOCK 2, OLIVES ADDITION, CHELAN COUNTY, WASHINGTON, ACCORDING TO THE PLAT THEREOF RECORDED IN [VOLUME 2 OF PLATS, PAGE 81](#), AND THE NORTHERLY PRODUCTION OF SAID EASTERLY LINE OF SAID LOT 10,

AND BLOCK 1 AND LOTS 7, 8, 9 AND 10, BLOCK 2 OF OLIVES ADDITION, CHELAN COUNTY, WASHINGTON, ACCORDING TO THE PLAT THEREOF RECORDED IN [VOLUME 2 OF PLATS, PAGE 81](#),

TOGETHER WITH THAT PORTION OF VACATED CRESENT STREET LYING SOUTHERLY OF SAID BENTON STREET,

AND TOGETHER WITH THE NORTHERLY HALF OF THAT PORTION OF BRIDGE STREET LYING WESTERLY OF THE WESTERLY LINE OF BLOCK 7, COLUMBIA BRIDGE ADDITION TO WENATCHEE, EXTENDED NORTHERLY, AS VACATED BY CITY OF WENATCHEE ORDINANCE NO. [2557](#), RECORDED NOVEMBER 1, 1984, UNDER AUDITOR'S NO. [8411010098](#).

APN: 222010410050

**SCHEDULE B - SECTION 1**  
**REQUIREMENTS**

The following are the Requirements to be complied with:

- Item (A) Pay the agreed amounts for the interest in the land and/or the mortgage to be insured.
- Item (B) Pay us the premiums, fees and charges for the policy.
- Item (C) Documents satisfactory to us creating the interest in the land and/or the mortgage to be insured must be signed, delivered and recorded:
- Item (D) You must tell us in writing the name of anyone not referred to in this Commitment who will get an interest in the land or who will make a loan on the land. We may then make additional requirements or exceptions.
- Item (E) Releases(s) or Reconveyance(s) of Item(s):
- Item (F) Other:
- Item (G) You must give us the following information:
  - 1. Any off record leases, surveys, etc.
  - 2. Statement(s) of Identity, all parties.
  - 3. Other:

**SCHEDULE B - SECTION 2**  
**GENERAL EXCEPTIONS**

The Policy or Policies to be issued will contain Exceptions to the following unless the same are disposed of to the satisfaction of the Company.

- A. Taxes or assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records.
- B. Any facts, rights, interest, or claims which are not shown by the public records but which could be ascertained by an inspection of said land or by making inquiry of person in possession thereof.
- C. Easements, claims of easement or encumbrances which are not shown by the public records.
- D. Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by public records.
- E. (1) Unpatented mining claims; (2) reservations or exceptions in patents or in acts authorizing the issuance thereof; (3) Water rights, claims or title to water; whether or not the matters excepted under (1), (2) or (3) are shown by the public records; (4) Indian Tribal Codes or Regulations, Indian Treaty or Aboriginal Rights, including easements or equitable servitudes.
- F. Any lien, or right to a lien, for services, labor, materials or medical assistance heretofore or hereafter furnished, imposed by law and not shown by the public records.
- G. Any service, installation, connection, maintenance, construction, tap or reimbursement charges/costs for sewer, water, garbage or electricity.
- H. Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in the public records or attaching subsequent to the effective date hereof but prior to the date the proposed insured acquires of record for value the estate or interest or mortgages thereon covered by this Commitment.

**SCHEDULE B - SECTION 2  
(continued)  
SPECIAL EXCEPTIONS**

1. Lien of the Real Estate Excise Sales Tax and Surcharge upon any sale of said premises, if unpaid. As of the date herein, the excise tax rate for unincorporated Chelan County is at 1.78 %.  
Levy/Area Code: 802
2. General Taxes for the year 2016. The first half becomes delinquent after April 30th. The second half becomes delinquent after October 31st.

Tax Account No.: 222010410050

1st Half

Amount Billed: \$ 20,589.77

Amount Paid: \$ 20,589.77

Amount Due: \$ 0.00

Assessed Land Value: \$ 695,218.00

Assessed Improvement Value: \$ 2,902,715.00

2nd Half

Amount Billed: \$ 20,589.70

Amount Paid: \$ 0.00

Amount Due: \$ 20,589.70

Assessed Land Value: \$ 695,218.00

Assessed Improvement Value: \$ 2,902,715.00

3. Liability for assessment(s) and/or personal property taxes, if any.
4. Deed of Trust with Security Agreement, Assignment of Leases and Rents and Fixture Filing and the terms and conditions thereof.

Grantor/Trustor: CDC Properties I LLC

Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc.

Trustee: First American Title Company

Amount: \$43,257,500.00

Recorded: October 04, 2004

Recording Information: [2184490](#), [2184491](#), [2184492](#) and [2184493](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 07, 2005 as [2213595](#), [2213596](#) and [2213597](#) of Official Records.

A document recorded March 09, 2016 as [2433552](#) of Official Records provides that Rainier Foreclosure Services Inc., a Washington Corporation was substituted as trustee under the deed of trust.

A Notice of Trustee's Sale recorded July 05, 2016 as recording no. [2439753](#).

5. Assignment of Leases and Rents and Security Deposits and the terms and conditions thereof:

Assignor: CDC Properties I LLC  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 04, 2004  
Recording Information: [2184494](#)

Assignment of assignment of leases and rents and security deposits, including the terms and conditions thereof:

Assignor: Merrill Lynch Mortgage Lending, Inc.  
Assignee: Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1  
Recorded: November 07, 2005  
Recording Information: [2213598](#)

6. A lease and the terms and conditions thereof.

Lessor: CDC Properties I, LLC, a Delaware limited liability company  
Lessee: State of Washington, Department of Social and Health Services, acting through the Department of Enterprise Services  
Term: Beginning December 1, 2013 and ending November 30, 2018  
Dated: August 08, 2013  
Recorded: January 31, 2014  
Recording Information: [2396159](#)

Said Lease, among other things, provides for an option to renew.

For a period of: Additional 5 years

7. A sublease and the terms and conditions thereof.

Sublessor: State of Washington, Department of Social and Health Services acting through the Department of Enterprise Services  
Sublessee: State of Washington, Department of Early Learning acting through the Department of Enterprise Services

Term: December 1, 2013 and ending November 30, 2018  
Dated: March 06, 2014  
Recorded: January 21, 2015  
Recording No.: 2412410

8. Evidence of the authority of the individual(s) to execute the forthcoming document for CDC Properties I LLC, copies of the current operating agreement should be submitted prior to closing.
9. Unrecorded leaseholds, if any, rights of vendors and security agreement on personal property and rights of tenants, and secured parties to remove trade fixtures at the expiration of the term.
10. An option in favor of State of Washington, Department of Social and Health Services as contained in or disclosed by a document recorded August 24, 1987 as [8708240047](#) of Official Records.
11. Easement, including terms and provisions contained therein:  
  
In Favor Of: Public Utility District 1 of Chelan County  
Purpose: Electric transmission and/or distribution system  
Recorded: August 07, 1968  
Recording No.: [682302](#)
12. Agreement executed by and between the parties herein named upon the conditions therein provided.  
  
Between: Merrill Lynch Mortgage Lending, Inc. and CDC Properties I, LLC  
Dated: September 17, 2004  
Recorded: February 17, 2005  
Recording Information: [2193469](#)  
Providing as Follows:  
Subordination, Non-Disturbance and Attornment Agreement
13. Any and all offers of dedication, conditions, restrictions, easements, boundary discrepancies or encroachments, notes and/or provisions shown or disclosed by Short Plat or Plat of Peachey Addition to Wenatchee recorded in [Volume 1 of Plats, Page\(s\) 69 and 70](#).
14. Any and all offers of dedication, conditions, restrictions, easements, boundary discrepancies or encroachments, notes and/or provisions shown or disclosed by Short Plat or Plat of Columbia Bridge Addition recorded in Volume 2 of Plats, Page(s) 9 and 10.
15. Any and all offers of dedication, conditions, restrictions, easements, boundary discrepancies or encroachments, notes and/or provisions shown or disclosed by Short Plat or Plat of Olives Addition recorded in [Volume 2 of Plats, Page\(s\) 81](#).

16. Rights of the public to use that portion of said premises lying in vacated Bridge Street, as vacated by City of Wenatchee Ordinance No. [2557](#). It is apparent that said vacated street is still being used by the public as a city street.
17. Rights and liabilities under customary agreement for water right in Wenatchee Reclamation District, including the restriction of the use of said water to irrigation, stock and domestic purposes, the granting of an easement for lateral ditches and pipelines used in connection therewith, and the creation of a lien upon the land for assessments therein.

<b>INFORMATIONAL NOTES</b>
----------------------------

A. Effective January 1, 1997, and pursuant to amendment of Washington State Statutes relating to standardization of recorded documents, the following format and content requirements must be met. Failure to comply may result in rejection of the document by the recorder.

B. Any sketch attached hereto is done so as a courtesy only and is not part of any title commitment or policy. It is furnished solely for the purpose of assisting in locating the premises and First American expressly disclaims any liability which may result from reliance made upon it.

C. The description can be abbreviated as suggested below if necessary to meet standardization requirements. The full text of the description must appear in the document(s) to be insured.

PTN BLOCK 7, PEACHEY ADD., [VOL. 1, P. 69-70](#); AND BLOCK 1 & PTN LOTS 7-10, BLOCK 2, OLIVES ADD., [VOL. 2, P. 81](#), CHELAN COUNTY

APN: 222010410050

D. The following deeds affecting the property herein described have been recorded within 36 months of the effective date of this commitment: None

Property Address: 805 S Mission St, Wenatchee, WA 98801

Note: The forthcoming Mortgagee's Policy will be the ALTA 2006 Policy unless otherwise noted on Schedule A herein.

Note: We find no judgments or Federal tax liens against the vestee herein, unless otherwise shown as a numbered exception above.

E. A fee will be charged upon the cancellation of this Commitment pursuant to the Washington State Insurance Code and the filed Rate Schedule of the Company.

**END OF SCHEDULE B**



***First American Title Insurance Company***  
***National Commercial Services***

**COMMITMENT**  
**Conditions and Stipulations**

1. The term "mortgage" when used herein shall include deed of trust, trust deed, or other security instrument.
2. If the proposed Insured has or acquires actual knowledge of a defect, lien, encumbrance, adverse claim or other matter affecting the estate or interest or mortgage thereon covered by this Commitment, other than those shown in Schedule B hereof, and shall fail to disclose such knowledge to the Company in writing, the Company shall be relieved from liability for any loss or damage resulting from any act or reliance hereon to the extent the Company is prejudiced by failure to so disclose such knowledge. If the proposed Insured shall disclose such knowledge to the Company, or if the Company otherwise acquires actual knowledge of any such defect, lien, encumbrance, adverse claim or other matter, the Company at its option, may amend Schedule B of this Commitment accordingly, but such amendment shall not relieve the Company from liability previously incurred pursuant to paragraph 3 of these Conditions and Stipulations.
3. Liability of the Company under this Commitment shall be only to the named proposed Insured and such parties included under the definition of Insured in the form of Policy or Policies committed for, and only for actual loss incurred in reliance hereon in undertaking in good faith (a) to comply with the requirements hereof, or (b) to eliminate exceptions shown in Schedule B, or (c) to acquire or create the estate or interest or mortgage thereon covered by this Commitment. In no event shall such liability exceed the amount stated in Schedule A for the Policy or Policies committed for and such liability is subject to the Insuring provisions, exclusion from coverage, and the Conditions and Stipulations of the form of Policy or Policies committed for in favor of the proposed Insured which are hereby incorporated by references, and are made a part of this Commitment except as expressly modified herein.
4. Any claim of loss or damage, whether or not based on negligence, and which arises out of the status of the title to the estate or interest or the lien of the Insured mortgage covered hereby or any action asserting such claim, shall be restricted to the provisions and Conditions and Stipulations of this Commitment.

The First American Corporation  
***First American Title Insurance Company***  
***National Commercial Services***  
**PRIVACY POLICY**

**We Are Committed to Safeguarding Customer Information**

In order to better serve your needs now and in the future, we may ask you to provide us with certain information. We understand that you may be concerned about what we will do with such information particularly any personal or financial information. We agree that you have a right to know how we will utilize the personal information you provide to us. Therefore, together with our parent company, The First American Corporation, we have adopted this Privacy Policy to govern the use and handling of your personal information.

**Applicability**

This Privacy Policy governs our use of the information which you provide to us. It does not govern the manner in which we may use information we have obtained from any other source, such as information obtained from a public record or from another person or entity. First American has also adopted broader guidelines that govern our use of personal information regardless of its source. First American calls these guidelines its Fair Information Values, a copy of which can be found on our website at [www.firstam.com](http://www.firstam.com).

**Types of Information**

Depending upon which of our services you are utilizing, the types of nonpublic personal information that we may collect include:

- Information we receive from you on applications, forms and in other communications to us, whether in writing, in person, by telephone or any other means;
- Information about your transactions with us, our affiliated companies, or others; and
- Information we receive from a consumer reporting agency.

**Use of Information**

We request information from you for our own legitimate business purposes and not for the benefit of any nonaffiliated party. Therefore, we will not release your information to nonaffiliated parties except: (1) as necessary for us to provide the product or service you have requested of us; or (2) as permitted by law. We may, however, store such information indefinitely, including the period after which any customer relationship has ceased. Such information may be used for any internal purpose, such as quality control efforts or customer analysis. We may also provide all of the types of nonpublic personal information listed above to one or more of our affiliated companies. Such affiliated companies include financial service providers, such as title insurers, property and casualty insurers, and trust and investment advisory companies, or companies involved in real estate services, such as appraisal companies, home warranty companies, and escrow companies. Furthermore, we may also provide all the information we collect, as described above, to companies that perform marketing services on our behalf, on behalf of our affiliated companies, or to other financial institutions with whom we or our affiliated companies have joint marketing agreements.

**Former Customers**

Even if you are no longer our customer, our Privacy Policy will continue to apply to you.

**Confidentiality and Security**

We will use our best efforts to ensure that no unauthorized parties have access to any of your information. We restrict access to nonpublic personal information about you to those individuals and entities who need to know that information to provide products or services to you. We will use our best efforts to train and oversee our employees and agents to ensure that your information will be handled responsibly and in accordance with this Privacy Policy and First American's Fair Information Values. We currently maintain physical, electronic, and procedural safeguards that comply with federal regulations to guard your nonpublic personal information.

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# Improvement Schedule

DESCRIPTION	Budgeted	629	5000	637	645	4565	640	1620	8830	805	TOTAL
TENANT IMPROVEMENTS ESD (Draw 1 of 3 - Total Ti: \$360,000) ESD (Draw 2 of 3 - Total Ti: \$360,000) ESD (Draw 3 of 3 - Total Ti: \$360,000)	August						\$ 120,000.00				\$ 120,000.00
	September						\$ 120,000.00				\$ 120,000.00
	October						\$ 120,000.00				\$ 120,000.00
		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 360,000.00	\$ -	\$ -	\$ -	\$ 360,000.00
LANDLORD WORK Floors 1-4 (Draw 1 of 3 - Total Landlord Work: \$1,351,965) Floors 1-4 (Draw 2 of 3 - Total Landlord Work: \$1,351,965) Floors 1-4 (Draw 3 of 3 - Total Landlord Work: \$1,351,965)	July						\$ 450,654.75				\$ 450,654.75
	August						\$ 450,654.75				\$ 450,654.75
	September						\$ 450,654.75				\$ 450,654.75
							\$ 77,842.88				\$ 77,842.88
Landlord Work - Vets	August						\$ 153,926.07				\$ 153,926.07
Landlord Work - Commissioners	August										
Capital Maintenance (Draw 1 of 3 - Total Landlord Work: \$190,879)	August		\$ 63,626.13								\$ 63,626.13
Capital Maintenance (Draw 2 of 3 - Total Landlord Work: \$190,879)	September		\$ 63,626.13								\$ 63,626.13
Capital Maintenance (Draw 3 of 3 - Total Landlord Work: \$190,879)	October		\$ 63,626.13						\$ 50,000.00		\$ 63,626.13
Landlord Work - West Seattle DOL	August										\$ 50,000.00
TOTAL: Tenant Improvements		\$ -	\$ 190,878.38	\$ -	\$ -	\$ -	\$ 1,583,733.20	\$ -	\$ 50,000.00	\$ -	\$ 1,824,611.58
BUILDING IMPROVEMENTS Demo Floors 1-4 (Draw 1 of 3 - Total: \$300,000) Demo Floors 1-4 (Draw 2 of 3 - Total: \$300,000) Demo Floors 1-4 (Draw 3 of 3 - Total: \$300,000) Roof Replacement Fluid Cooler Replacement (50% Down) Fluid Cooler Replacement (Final) Roof Replacement (Draw 1 of 2 - Total \$185,000) Roof Replacement (Draw 2 of 2 - Total \$185,000) Roof Replacement for 640 lower roof Building Envelope Repairs from mold issue	August	\$ 100,000.00									\$ -
	September	\$ 100,000.00									\$ -
	October	\$ 100,000.00									\$ 100,000.00
	August							\$ 165,000.00			\$ 165,000.00
	August	\$ 400,000.00									\$ 400,000.00
	September	\$ 400,000.00								\$ 92,500.00	\$ 400,000.00
	August									\$ 92,500.00	\$ 92,500.00
	September						\$ 100,650.00				\$ 100,650.00
	October						\$ 150,000.00				\$ 150,000.00
	September										\$ -
		\$ 1,100,000.00	\$ -	\$ -	\$ -	\$ -	\$ 250,650.00	\$ 165,000.00	\$ -	\$ 185,000.00	\$ 1,700,650.00
	TOTAL: Building Improvements										
Leasing Commissions 640 Bldg - Lease Commission-ESD 4565 Bldg - Lease Commission-DSHS/DVR 4565 Bldg - Lease Commission-Dept. Svcs Blind							\$ 170,838.33				\$ 170,838.33
						\$ 17,653.73					\$ 17,653.73
						\$ 9,581.91					\$ 9,581.91
		\$ -	\$ -	\$ -	\$ -	\$ 27,235.64	\$ 170,838.33	\$ -	\$ -	\$ -	\$ 198,073.97
TOTAL: Capital Costs		\$ 1,100,000.00	\$ 190,878.38	\$ -	\$ -	\$ 27,235.64	\$ 2,365,221.53	\$ 165,000.00	\$ 50,000.00	\$ 185,000.00	\$ 4,083,335.55

# Receivership Letter

Date: July 21, 2016

To: David Bornheimer, Senior Vice President, Midland Loan Services as servicer for Plaintiff, Wells Fargo Bank N.A. as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1 Commercial Pass-Through Certificates, Series 2005-MCP1 Plaintiff, U.S. Bank, N.A., as Successor-Trustee to LaSalle Bank National Association, as Trustee for the benefit of the Certificate Holders of Commercial Mortgage Pass-Through Certificates, Series MCCMT 2004-C2 D  
Defendant, CDC Properties I, LLC  
And Interested Parties

From: Edward Velton, Receiver, JSH Properties, Inc.

Re: CDC Properties I, LLC, Cause No. 16-2-10797-4-KNT  
**Receiver's Monthly Report: June 2016**

Procedural Background:

On May 19, 2016, pursuant to the request by Wells Fargo Bank N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1 Commercial Pass-Through Certificates, Series 2005-MCP1 ("Wells Fargo") and U.S. Bank, N.A., as Successor-Trustee to LaSalle Bank National Association as Trustee for the Benefit of the Certificate Holders of Commercial Mortgage Pass-Through Certificates, Series MCCMT 2004-C2 ("U.S. Bank" and collectively with Wells Fargo, "Plaintiffs"), this Court entered an Order Appointing Custodial Receiver (Order), under which JSH Properties, Inc. (Receiver) was appointed custodial receiver to take charge of the assets relating to the properties:

- 1620 South Pioneer Way, Moses Lake, Washington 98837
- 805 S. Mission Street, Wenatchee, Washington 98801
- 629 Woodland Square Loop SE, Lacey, Washington 98503
- 637 Woodland Square Loop SE, Lacey, Washington 98503
- 640 Woodland Square Loop SE, Lacey, Washington 98503
- 645 Woodland Square Loop SE, Lacey, Washington 98503
- 4565 7<sup>th</sup> Avenue South, Lacey, Washington 98503
- 5000 Capitol Boulevard, Tumwater, Washington 98502
- 8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106

Receivership commenced on May 19, 2016. In accordance with Paragraph 3.4.2 of Order, Receiver submits the following report for May 2016.

Receivership Property:

The Properties over which Receiver has been appointed are as follows:

- 1620 South Pioneer Way, Moses Lake, Washington 98837  
Type: Office  
Tenant: Vacant  
Occupied: 0%
- 805 S. Mission Street, Wenatchee, Washington 98801  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Social Health Services)  
Occupied: 100%
- 629 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: Vacant  
Occupied: 0%
- 637 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Corrections)  
Occupied: 100%
- 640 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: 1 Tenant (State of Washington, Employment Security Department)  
Occupied: 96.6%
- 645 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Licensing)  
Occupied: 100%
- 4565 7<sup>th</sup> Avenue South, Lacey, Washington 98503  
Type: Office  
Tenant: 3 Tenant (State of Washington, Gambling Commission, Department of Social Health Services, and Department of Services for the Blind)  
Occupied: 87.6%
- 5000 Capitol Boulevard, Tumwater, Washington 98502  
Type: Office  
Tenant: 1 Tenant (State of Washington, Office of the Insurance Commissioner)  
Occupied: 100%
- 8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Licensing)  
Occupied: 100%

Status of Receivership:

1. Bond: Upon appointment Pursuant to Paragraph 3.2 of Order, Receiver posted a bond with Farmers Insurance Group in the amount of \$10,000, Bond No. #LSM0785717, issued by RLI Insurance Company.
2. Bank Account: Pursuant to Paragraph 3.4.1 of Order, Receiver established a bank account, at Umpqua Bank, Bellevue, WA branch (#XXXXXX4077). As of June 30, 2016, the bank account balance was \$414,079.33.

<u>JUNE 2016</u>	Debit	Credit	TOTAL
Deposits:			
- Deposit from Tenants	\$ 367,873.31		
- Owner Contribution	\$ -		
TOTAL Deposits	\$ 367,873.31		<u>\$ 367,873.31</u>
Withdrawals:			
- Receiver Fee		\$ 5,400.00	
- Operating Expenses		\$ 120,596.99	
- Utilities		\$ 44,430.64	
- Other Expenses		\$ -	
- Gen & Admin		\$ 1,804.04	
TOTAL Withdrawals		\$ 172,231.67	<u>\$ 172,231.67</u>
NET INCOME			<u>\$ 195,641.64</u>
ADJUSTMENTS			
- Tenant Improvements		\$ 706.26	
- Owner Contributions	\$ 214,340.14		
TOTAL Adjustments			<u>\$ 213,633.88</u>
MONTHLY CASH FLOW	JUNE 2016		<u>\$ 409,275.52</u>
BEGINNING CASH BALANCE			\$ 4,803.81
ENDING CASH BALANCE			\$ 414,079.33

3. Receiver's Counsel: Pursuant to Paragraph 3.3.5 of Order, Receiver hired counsel to assist Receiver in this matter. Receiver's counsel is Charles E. Shigley of Alston Courtnage and Bassetti LLP, located at 1420 – 5<sup>th</sup> Avenue, Suite 3650, Seattle, WA 98101.
4. Appointment of Jennifer Bell as Property Manager: To assist Receiver, Jennifer Bell has been appointed as the senior property manager (PM) for the portfolio. Jennifer has over twenty years of experience in commercial property management.

5. Operations and Maintenance

Site inspections of properties revealed numerous deferred maintenance items. The comprehensive list of deferred maintenance items are in the 2016 operating budget that was submitted on July 6, 2016.

The following maintenance items have been scheduled in June and are anticipated to be completed and paid for in the month of July.

○ **1620 Pioneer Way, Moses Lake, Washington 98837**

- Locks & Security – Rekeyed all building exterior doors that contained key ways.
- HVAC R&M – Miscellaneous repairs to Unit 9, 18 15, 17, 10, 11 & 19. Repairs to include new compressor, fan motor, refrigerant and belts. Performed preventative maintenance on all of the rooftop HVAC units.
- Electrical R&M – Removed abandoned low voltage cabling. Repaired some of the electrical due to it not meeting code and potentially being a fire hazard. Removed power poles and associated low voltage cabling and changed all burnt out lamps and non-functioning ballasts.
- Fire Safety R&M – Replaced the fire alarm control panel, installed a new alarm panel and installed a new annunciator panel. Tested and tagged all past due fire extinguishers. Performed a fire alarm panel test.
- Landscape R&M – Prepared seed bed and re-seeded the turf with blue grass and perennial rye. Thatched and aerated the turf. Hauled and removed trash containers, concrete table/benches. Removed seven (7) dead plum trees, pruned shrubs, weeded/barked beds and activated the irrigation system.

○ **805 S. Mission Street, Wenatchee, Washington 98801**

- Landscape Maintenance – Initial cleanup of property (weed, prune, trim and remove debris).
- HVAC R&M – Reset all Carrier economizers and mechanical cooling and ensure that all damper motors are functioning. Purchased HVAC supplies (filters, evaporator coil and v-belt). Changed filters, belts and cleaned the coils on the rooftop HVAC equipment.
- Fire Safety R&M – Replaced fire alarm control panel, pull stations, smoke detectors and horn strobes. Conducted the annual fire alarm panel test, wet pipe fire sprinkler test and backflow assembly test.

○ **629 Woodland Square Loop SE, Lacey, Washington 98503**

- Landscape Maintenance – Clean-up in West parking lot (prune trees/shrubs, remove selected shrubs, spray vegetation, rake/dispose leaves in planting bed and blow parking lot). Installed 20 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
- Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-stripped the parking lot.
- Fire Safety R&M – Annual wet sprinkler test.
- Roof Maintenance – Includes painting of rusted sheet metal flashings and painting of rusted gas line.
- Elevator – Commenced Labor of Industries code work to remove the red tag.

- **637 Woodland Square Loop SE, Lacey, Washington 98503**
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-striped the parking lot.
  - Fire Safety R&M – Annual wet sprinkler and backflow assembly test.
  - Landscape Maintenance – Pruned old ivy growth, installed 15 yards of bark, irrigation start up and sprinkler head repairs for the turf area and beds around the building.
  - Roof Maintenance – Installed missing rise block protection pads.
  
- **640 Woodland Square Loop SE, Lacey, Washington 98503 (640/4565 have a shared HVAC plant)**
  - HVAC – Replaced sheaves and belts for both fan motors on Fluid Cooler #1 and Fluid Cooler #2; Cleaning of Fluid Cooler #1 and Fluid Cooler #2; Installed additional seismic bracing on the condenser water piping; Repairs to HVAC Unit #1-#7 (1<sup>st</sup> Floor)
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-striped the parking lot.
  - Fire Safety R&M – Annual wet sprinkler and backflow assembly test.
  - Landscape Maintenance – Pruned old ivy growth, installed 50 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
  - Consulting Services – OAC has been contracted to investigate the source of water intrusion and provide a report with their findings. Coordination with PBS Engineering & Environmental will take place for the remediation and permanent fix.
  - Consulting Services – PBS Engineering & Environmental has been contracted to assess conditions fungal abatement spec.
  
- **645 Woodland Square Loop SE, Lacey, Washington 98503**
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-striped the parking lot.
  - Landscape Maintenance – Installed 10 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
  - Roof Maintenance – Painted existing gas line and install block pads under gas/electrical conduit to provide membrane protection.
  
- **4565 7<sup>th</sup> Avenue SE, Lacey, Washington 98503 (640/4565 have a shared HVAC plant)**
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-striped the parking lot.
  - Landscape Maintenance – Pruned old ivy growth, installed 55 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
  - Fire Safety R&M – Annual fire extinguisher and backflow assembly test.
  - Roof Maintenance – Applied sealant to storm collar and top of pipe; reseal and paint duct work.

- **5000 Capitol Boulevard, Tumwater, Washington 98502**
  - Roof Maintenance – Installed block pad and painted rusted gas line on the roof.
  - Fire Safety R&M – Performed annual wet sprinkler, backflow assembly and fire extinguisher test.
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-striped the parking lot.
  - HVAC R&M – HVAC compressor was replaced for one of the rooftop units.
- **8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106**
  - Fire Safety R&M – Performed annual fire extinguisher test.

6. Site Visits:

Property management site visits to the properties are as follows:

- 8830 25<sup>th</sup> Avenue SW, Seattle, WA – June 15<sup>th</sup>
- 805 S. Mission Street, Wenatchee, WA – June 13<sup>th</sup>
- 1620 S. Pioneer Way, Moses Lake, WA – June 14<sup>th</sup>
- Lacey and Tumwater Properties – June 2<sup>nd</sup>, 6<sup>th</sup>, 10<sup>th</sup>, 16<sup>th</sup>, 20<sup>th</sup> and 24<sup>th</sup>

7. Management of Property:

Pursuant to Paragraph 3.3.4 of Order, on June 3, 2016, Receiver/PM submitted a 30-day draft budget to Midland Loan Services, a PNC Real Estate business. A draft budget for July 2016 through December 2016 was submitted to Midland Services on July 6<sup>th</sup>.

8. Marketing/Leasing of Property:

Pursuant to Paragraph 3.4.4 of Order, Receiver is authorized to market the Property to obtain new tenants for current vacant space(s) and discuss renewal options.

- **1620 S Pioneer Way, Moses Lake, Washington 98837**  
Vacant – We have initiated discussions with the Moses Lake school district who is interested in leasing the building as an early learning center.
- **629 Woodland Square Loop SE, Lacey, Washington 98503**  
Vacant – Working to bring the building to a leasable condition before offering to tenants.
- **640 Woodland Square Loop SE, Lacey, Washington 98503**  
Employment Security Department – Lease has been renewed as follows:  
Term: 5 Years (07/01/2016 – 06/30/2021)  
RSF: 70,449  
Rent: \$113,892.55 per month <sup>(1)</sup>

<sup>(1)</sup> The Lessee shall not be required to pay the rental rate increase referenced in Paragraph 4 above until all of the work requested by Lessee in Additional Lease Provision paragraph 19 has been completed by Lessor. Until all such work is completed and approved by Lessee, the rate of \$113,360.17 per month, as required under SRL 11-0037 shall continue in effect.

- **645 Woodland Square Loop SE, Lacey, Washington 98503**  
Department of Licensing - Tenant has requested parking lot repairs. Tenant wants to discuss a five (5) year extension. Additional deferred maintenance remediation will be required. Tenant is developing a scope of work.
  
- **4565 7<sup>th</sup> Avenue South, Lacey, Washington 98503**  
Gambling Commission – Tenant is relocating to a nearby building. They want a larger 1<sup>st</sup> floor space for their gambling lab. Tenant has requested a six-month extension while their new space is completed.  
DSHS-DVAR – Tenant is proposing six months free rent. Landlord to remedy deferred maintenance. We expect to focus on this extension later this week.  
Department of Services of the Blind – Tenant is requesting a five (5) year extension. Tenant hasn't made a proposal other than requiring Landlord to remedy deferred maintenance. This extension will become a priority this week after we complete the Insurance Commissioner and EDS leases.
  
- **5000 Capitol Boulevard, Tumwater, Washington 98502**  
Office of the Insurance Commissioner – Lease is negotiated and work is priced. Lease renewal is with Lender for approval.
  
- **8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106**  
Department of Licensing – Landlord is working on completing the Deferred Maintenance List that is attached to the last lease renewal that was signed in March 2016.

Dated this 21<sup>st</sup>, day of July, 2016



By:

\_\_\_\_\_  
 Edward Velton  
 Receiver

Encl: As stated

# Appraisers' Experience Data



**David M. Chudzik, Ph.D., MAI**

Vice President

Valuation Advisory Services

## **CAREER SUMMARY**

Since joining Kidder Mathews' Valuation Advisory Services in October of 2004, David has provided valuation and consultation services for a wide variety of commercial property types including office, industrial, retail, multi-family, hospitality, marina and development properties. His experience includes complex properties like biotechnology research facilities, data centers, sawmills, shipyards, and other specialized property types. He has performed biotechnology valuation and market analysis on a national basis and authored the National Biotechnology Real Estate Market Analysis for GVA Worldwide. Assignments have included valuation of leasehold interests, air rights, condemnation compensation, conservation easements as well as market rent studies.

David's professional experience includes venture capital investing with emphasis in the life sciences industry. He has also worked as a development analyst and project manager at Seattle area real estate development companies. His development experience includes multi-family residential, commercial office, and marina developments.

David brings unique qualifications to real estate valuation and consulting making him well-qualified in the analysis of some of the most complex and sophisticated real estate.

601 Union St, Suite 4720  
Seattle, WA 98101  
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**F** 206.205.0220  
dchudzik@kiddermathews.com  
.....

## **EDUCATION**

- Doctor of Philosophy, Biochemistry, University of Washington
- Master of Business Administration, Management, University of Washington
- Bachelor of Science, Biochemistry, University of Washington
- Bachelor of Arts, Spanish, University of Washington

## **PROFESSIONAL LICENSES**

- Washington Certified General Real Estate Appraiser (No. 1102099)
- Oregon Certified General Real Estate Appraiser (No. C00182)

## **AFFILIATION**

Member of Appraisal Institute (MAI)

## David Chudzik, Ph.D., MAI continued

### PARTIAL CLIENT LIST

Allstate Life Insurance Co.	KeyBank	Puget Sound Bank
Alexandria Real Estate Equities	King County	Puget Western
Archdiocese of Seattle	Low Income Housing Institute	San Juan County Land Bank
Bank of America	Memorial Medical Center	Schnitzer West
BECU	Merrill Lynch	Seattle BioMed
Bloch Properties	Morgan Stanley	Seattle Monorail Project
Citibank	Morton McGoldrick, PS	Server Farm Realty
City of Seattle	Moss Adams	Stockbridge Capital Group
City of Renton	National Real Estate Advisors	Todd Shipyards
Davis Wright Tremaine	Nexus Properties	Unico Properties
East West Bank	Northwest Diabetes Research Center	Union Bank
First Sound Bank	Northwest Kidney Center	University of Washington
First Mutual Bank	Novartis	US Bancorp
GE Capital	Olympus Real Estate Partners	Vulcan Real Estate
H5 Capital	Overlake Medical Center	Washington Federal
Heritage Bank	Perkins Coie	Washington Trust Bank
Jefferson County	Port of Port Townsend	Wells Fargo
JPMorgan Chase Bank	Portland State University	

# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

**CERTIFIED GENERAL REAL ESTATE APPRAISER**

**DAVID MATTHEW CHUDZIK**  
**7047 51ST AVENUE NE**  
**SEATTLE WA 98115**

**1102099**

License Number

**03/17/2011**

Issued Date

**11/02/2018**

Expiration Date

*Pat Kohler*  
Pat Kohler, Director

PL-630-159 (R/3/16)



**Crosby Nordblom**  
Associate Appraiser  
Valuation Advisory Services

## **CAREER SUMMARY**

Crosby Nordblom is an associate appraiser that joined the Valuation Services division of Kidder Mathews in November of 2015.

Prior to joining Kidder Mathews, Crosby worked for CBRE Group, Inc. in Seattle where he started off in commercial property management.

601 Union St, Suite 4720  
Seattle, WA 98101  
**T** 206.205.0209  
**F** 206.205.0220  
crosbyn@kiddermathews.com  
.....

## **EDUCATION**

Bachelor of Arts, Economics, Colorado College

## **STATE CERTIFICATION**

Crosby is a registered real estate appraiser trainee in Washington State (License No. 1001854).

## **APPRAISAL COURSEWORK**

- Uniform Standards of Professional Appraisal Practice, Appraisal Institute – 2015
- Basic Appraisal Principals, Appraisal Institute – 2015
- Basic Appraisal Procedures, Appraisal Institute – 2015
- Supervisor-Trainee Course for Washington, McKissock – 2015

## **PROFESSIONAL AFFILIATIONS**

- Practicing Affiliate of the Appraisal Institute, Member No. 593374

# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION

THIS CERTIFIES THAT TRE PERSON NAMED HEREON IS AUTHORIZED, AS PROVIDED BY LAW, AS A



STATE REGISTERED REAL ESTATE APPRAISER TRAINEE

CROSBY VAN CURAN NORDBLOM  
503 N BOWDOIN PLACE  
SEATTLE WA 98103

Cert/Lic No.  
1001854

Issued Date  
12/23/2015

Expiration Date  
02/28/2017

*Pat Kohler*  
Pat Kohler, Director

PL-630-159 (R/6/13)

# Exhibit B

Appraisal Report

629 Woodland Sq. Loop SE | Lacey, WA

as of January 1, 2017



Prepared for

Seahawk Portfolio, LLC, Mariners  
Portfolio, LLC, WA Portfolio, LLC, and  
Olympia Office, LLC

Scott Switzer

Prepared by

David Chudzik, Ph.D., MAI

Crosby Nordblom

KM Job A16-0972

**Kidder Mathews**

**Valuation Advisory Services**

601 Union Street, Suite 4720  
Seattle, WA 98101

206.205.0200 | Fax 206.205.0220  
dchudzik@kiddermathews.com  
kiddermathews.com

November 8, 2016

Mr. Scott Switzer  
Seahawk Portfolio, LLC, Mariners Portfolio, LLC, WA Portfolio, LLC, and Olympia Office, LLC  
10900 4th Ave., Suite 2300  
Bellevue, WA 98004

Re: 629 Woodland Square Loop SE  
Lacey, WA 98168

Dear Mr. Switzer:

At your request, we have prepared an appraisal of the above-referenced property, which is fully described in the attached appraisal report. As requested, we have estimated the market value of the subject, with an effective appraisal date of January 1<sup>st</sup>, 2017. This value is based on the extraordinary assumption that all remaining property capital expenses will be completed and paid in full by the end of 2016, as indicated by the receiver. We have inspected the subject property and obtained data regarding other similar real estate in the area.

This report has been prepared in conformance with the current Uniform Standards of Professional Appraisal Practice (USPAP). In addition, our services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA). This report is intended for purposes related to negotiating and restructuring mortgage loans related to the subject, to be used by the client (Seahawks Portfolio LLC, Mariners Portfolio LLC, WA Portfolio LLC, and Olympia Office LLC).

As a result of our investigation and analysis, we have concluded that the market value of the fee simple interest in the subject real estate, subject to the limiting conditions and assumptions contained herein, is:

*Prospective Market Value, Fee Simple, as of January 1, 2017* ..... **\$1,950,000**

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'David Chudzik'.

David Chudzik, Ph.D., MAI  
State-certified General Real Estate  
Appraiser #1102099

A handwritten signature in blue ink, appearing to read 'Crosby Nordblom'.

Crosby Nordblom  
State-Registered Real Estate Trainee  
Appraiser #1001854

DC-CN/em

# Certification

We certify that, to the best of our knowledge and belief:

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- 3) We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- 8) We have made a personal inspection of the property that is the subject of this report.
- 9) We have not provided professional appraisal or consulting services concerning the subject property within the past three years.
- 10) No one provided significant real property appraisal assistance to the persons signing this certification.
- 11) The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute and conforms with the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA).
- 12) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 13) As of the date of this report, David Chudzik, Ph.D., MAI, has completed the continuing education program for Designated Members of the Appraisal Institute, and Crosby Nordblom, Practicing Affiliate, has completed the Standards and Ethics Education Requirement of the Appraisal Institute for Practicing Affiliates.



David Chudzik, Ph.D., MAI  
State-certified General Real Estate  
Appraiser #1102099



Crosby Nordblom  
State-Registered Real Estate Trainee  
Appraiser #1001854

## Limiting Conditions

Limiting conditions specific to this appraisal are:

- 1) Physical dimensions for the property were taken from public records or from information provided, and the appraisers assume no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
- 2) We are assuming that there are no hidden or unapparent conditions of the property, subsoil, or structures (including asbestos, soil contamination, or unknown environmental factors) that render it more or less valuable. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.
- 3) No responsibility is assumed for the legal description or for matters including legal or title considerations.
- 4) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 5) The appraisers are not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made.
- 6) The allocation of total value to land, buildings, or any fractional part or interest as shown in this report, is invalidated if used separately in conjunction with any other appraisal.
- 7) Valuation Advisory Services is a subsidiary of Kidder Mathews, a full service commercial real estate brokerage firm. On occasion, employees or agents of the firm have interests in the property being appraised. When present, interests have been disclosed, and the report has been made absent of any influence from these parties.

### RESTRICTION UPON DISCLOSURE & USE:

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the appraisers. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraisers.

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# Summary of Appraisal

# Summary of Appraisal

**Identity of Property** 629 Woodland Square Loop SE  
Lacey, WA 98168

**Property Description** The subject is a four-story office building located in Lacey's Woodland District, which is a substantial pocket of office uses focused on government tenancies. It has good access and receives average exposure, as it has no frontage along local arterials. The 1987, reinforced-concrete structure contains 33,269 sq ft of rentable area. The building has been unoccupied for a number of years and is currently in poor condition. Per the receivership report, all floors are to be substantially demolished and a new rooftop HVAC system is to be installed by the end of 2016. This will leave the building with a functional envelope, but it will need to be built-out substantially for tenancy.

The subject's parcel contains 1.08 acres of land and is zoned Woodland District by the City of Lacey. Parking is slightly below average at a ratio of 2.5 stalls per 1,000 sq ft of rentable area.

**ADDRESS** 629 Woodland Square Loop SE  
Lacey, WA 98168

**ASSESSOR'S TAX  
PARCEL NUMBER** 84990001400

**LEGAL DESCRIPTION** The legal description of the subject property is as follows:

*Section 17 Township 18 Range 1W Plat WOODLAND SQUARE  
BLA-6144 TR A Document 005/682*

**Ownership History** Per public records, the property is collectively owned by a group of LLCs – Seahawk Portfolio, LLC (30%), Mariners Portfolio, LLC (10%), WA Portfolio, LLC (30%), and (30%) Olympia Office, LLC. Title was transferred to these entities through a quitclaim deed on September 23<sup>rd</sup>, 2016 from CDC Properties I, LLC for a recorded amount of \$0. This is not considered to be a true real estate sale.

On March 9<sup>th</sup>, 2016, the process to foreclose on the subject was started and a notice of trustee's sale was issued on July 5<sup>th</sup>, 2016. It was to sell at public auction on October 21<sup>st</sup>, 2016, but the new owner entity has postponed this process with a stay of foreclosure.

There have been no other sales or listings of the property in the past five years that were reported by the current owners or noted in public records.

**Property Rights  
Appraised**

This is an appraisal of the fee simple estate. The definition of “fee simple estate” is as follows:

*Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.*

Source: The Dictionary of Real Estate Appraisal, Sixth Edition. Chicago: Appraisal Institute, 2015.

**Purpose of Appraisal**

The purpose of this appraisal is to estimate the market value of the subject property. The term “Market Value” is defined as:

*The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date, and the passing of title from seller to the buyer under conditions whereby:*

- a. the buyer and seller are typically motivated;*
- b. both parties are well informed or well advised, and acting in what they consider their own best interests;*
- c. a reasonable time is allowed for exposure in the open market;*
- d. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [g].

**Scope of Work**

The subject property is appraised based on the following scope of work.

- The subject includes 46,914 sq ft of land. It is improved with a four-story, office structure originally built in 1987. It is currently in

very poor condition and requires a significant amount of work. An inspection of the property was completed on October 14, 2016.

- This appraisal utilizes the extraordinary assumption that the remaining capital expenses will be completed and paid in full by the end of 2016, as indicated by the receiver. The effective appraisal date of this report is January 1, 2017.
- In this report, the Sales Comparison and Income Capitalization Approaches are used. The Cost Approach is not employed as typical market buyers and sellers would not use this approach in valuing buildings like the subject.
- The research of data included both general and specific data. Sources of general data that are included in the market trends and neighborhood description were obtained from various private and governmental sources.
- Specific data concerning the subject was obtained from various sources including the owner (leases, income statements, environmental reports, title report, and rent roll) and the Thurston County Assessor (zoning, assessed values and real estate taxes).
- Data compiled in the analysis of the building sales was obtained from CoStar, CBA (Commercial Broker Association), as well as Kidder Mathews' own in-house data files. Rental data was obtained from leasing agents, public records, and in-house data files on competing properties.
- All of the sales and rental data were confirmed with a party involved in the transaction and/or through public records.
- The reconciliation and final value opinion(s) is based on an overview of which approach or approaches we believe are the best indicators of value for the subject.

**Intended Use/User(s)** This report is to be used by the client (Seahawk Portfolio, LLC, Mariners Portfolio, LLC, WA Portfolio, LLC, and Olympia Office, LLC) with regards to purposes related to negotiating and restructuring mortgage loans related to the subject.

<b>Approaches to Value &amp; Final Value</b>	Prospective Market Value, Fee Simple, as of January 1, 2017	
<b>Conclusion</b>	Sales Comparison Approach	\$2,000,000
	Income Capitalization Approach	\$1,900,000
	Value Conclusion	\$1,950,000
<b>Extraordinary Assumptions</b>	This report utilizes the extraordinary assumption that the remaining property capital expenses will be completed and paid in full by the end of 2016, as indicated by the receiver. These include \$300,000 in demolition costs and \$800,000 to replace the buildings HVAC system. It is also assumed that no significant market changes will take place between today and the effective date of value.	
<b>Hypothetical Conditions</b>	None	
<b>Date of Report</b>	November 8, 2016	
<b>Date of Last Inspection</b>	October 14, 2016	
<b>Effective Date of Appraisal</b>	January 1, 2017	
<b>Marketing Time</b>	12 to 24 Months	
<b>Exposure Time</b>	12 to 24 Months	



Aerial Map

## Subject Photographs

View of subject looking south  
across Woodland Sq. Loop SE



View of subject from southeast



View looking west of subject's  
southern face and parking lot



## Subject Photographs

View looking east of subject's  
southern face and parking lot



Interior view of subject



Additional view of subject's  
interior



## Subject Photographs

Additional view of subject's interior



Additional view of subject's interior



View of subject's primary entrance

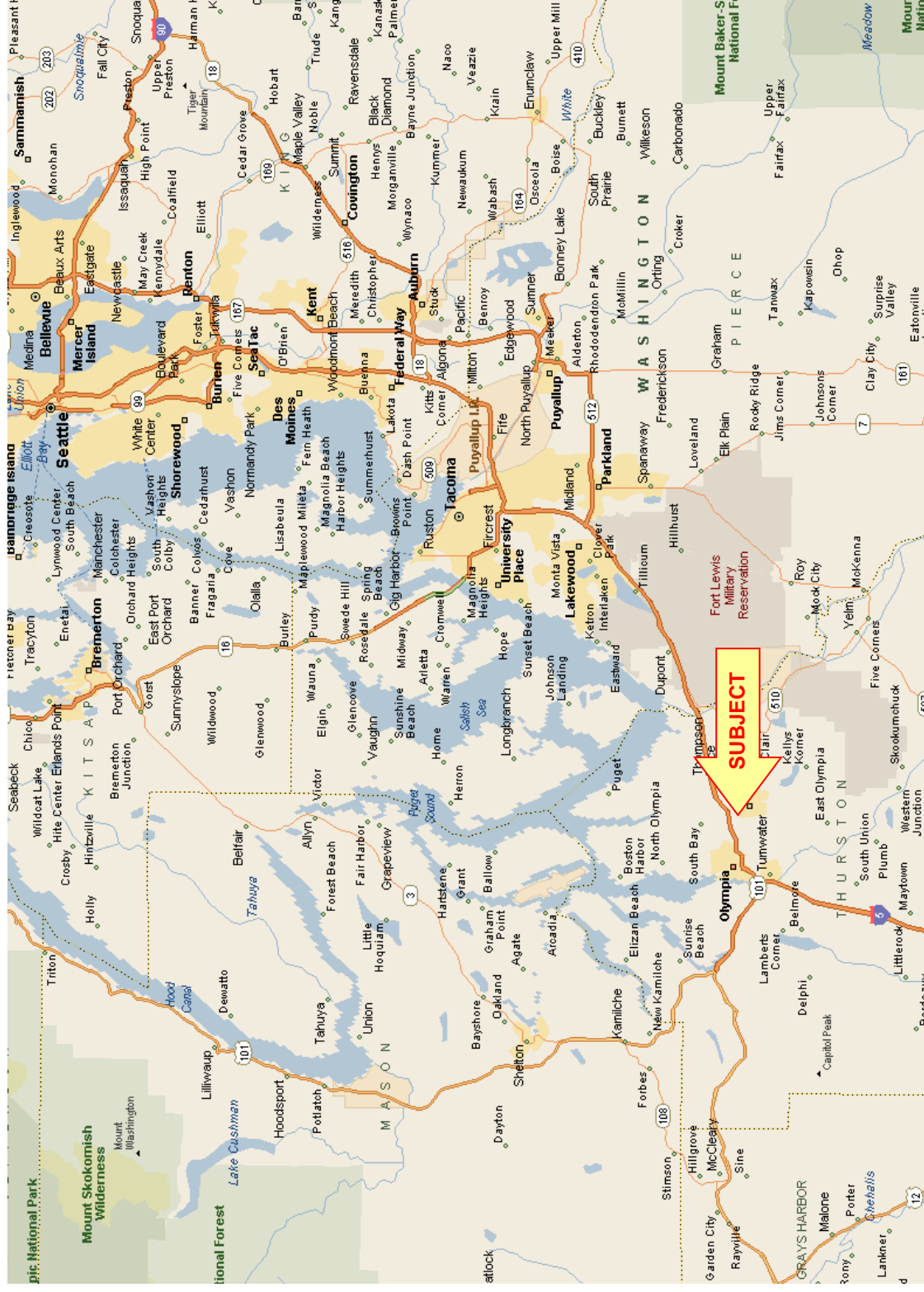


## Subject Photographs

View of subject's primary  
entrance



# Market Overview



## Regional Map

# Regional Overview

## Introduction

The subject is located in Thurston County, which is part of the four county Puget Sound MSA. The core of the market is comprised of King, Snohomish and Pierce counties. Thurston is at the south end and Kitsap is on the northwest side.

## National Overview

The national recovery has now lasted four years with job growth continuing with only minor pauses during the past two quarters. The gain outside of base wage jobs that started in 2015 has slowed but is still trending upward. 2015 ended with 2.53 million new jobs, an increase of 2.1%. This follows 2.26 million in 2014 and 2.25 million in 2013. The forecast for 2016 is a further increase by 1.8%. If the 2016 projection is on track, the unemployment rate will drop below 5.0%. Unemployment was 5.0% in March 2016, 50 basis points (bps) down from March 2015.

The GDP growth rate for 2015 was 2.4%, the same as 2014, and down slightly from 3.13% in 2013. The forecast for 2016 is GDP growth of 2.1% and 2017 bouncing back up to 2.4%.

Inflation remains under control, at 0.1% in 2015 following 1.6% in 2014 and 1.3% in 2013. The forecast has been revised to 1.3% for 2016 then increasing to 2.3% in 2017. Modest GDP and inflation has prevented the Federal Reserve from significantly increasing interest rates.

## Regional and National Economic Indicators

forecast

Annual Change	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Puget Sound Region</b>											
Employment	0.9%	-4.9%	-1.7%	1.6%	2.3%	2.8%	2.8%	2.9%	1.8%	1.6%	1.2%
Personal Income	3.1%	1.6%	2.5%	6.1%	4.9%	2.6%	6.2%	5.3%	4.3%	5.2%	4.9%
Consumer Price Index	4.3%	0.6%	0.3%	2.6%	2.5%	1.3%	1.8%	1.4%	1.4%	2.4%	2.4%
Housing Permits	-43.0%	-50.1%	31.5%	11.9%	51.8%	8.9%	16.9%	19.8%	-19.3%	2.2%	4.7%
Population	1.4%	1.5%	1.0%	1.0%	1.3%	1.4%	1.4%	1.3%	1.3%	1.2%	1.0%
<b>United States</b>											
Employment	-0.6%	-4.4%	-0.7%	1.2%	1.7%	1.7%	1.9%	2.1%	1.8%	1.4%	1.1%
Personal Income	2.9%	-1.7%	3.7%	5.1%	4.2%	2.0%	4.4%	4.5%	4.4%	4.7%	4.8%
Consumer Price Index	3.8%	-0.3%	1.6%	3.2%	2.1%	1.5%	1.6%	0.1%	1.3%	2.3%	2.4%
Housing Starts	-32.9%	-38.4%	5.6%	4.5%	28.0%	18.7%	7.8%	10.6%	12.9%	9.6%	7.3%

Source: The Puget Sound Economic Forecaster, March 2016

Income and sales tax revenues continue a path of sporadic increases, providing limited economic lift. Home sales continue to be strong, although new homes were restricted somewhat by low inventory in the 1<sup>st</sup>

quarter. Prices continue to move up, especially in the top markets. Consumer confidence increased to 93.1 in November 2015 as measured by the Thomas Reuters/University of Michigan Index of Consumer Sentiment. This was up from 88.8 a year previously and from 90.3 in October. The positive outlook remains stratified with working wage household sentiment more pessimistic. Perhaps anticipating slower long-term growth, the Measure of CEO Confidence continued its slow downward trend, hitting 48 as of the 3<sup>rd</sup> quarter report, down from 57 in the 1<sup>st</sup> quarter 2015. On the positive side, help wanted online listings increased by 172,300 in October, continuing an upward trend that started earlier in 2015.

### **Regional Overview**

The Puget Sound region is one of the best performing areas of the nation. Employment growth was 65% higher than the national average in 2013, 47% in 2014 and 38% in 2015. Since the depth of the recession in early 2010, the region has added nearly 400,000 new jobs. A positive trend over the past year was an expansion of the job growth out from the core companies, specifically Amazon and other tech firms. The growth has also been strong in the lower wage categories, even with the recent increases in the State and Seattle minimum wages. The retail category has done well as retail sales have improved for 12 quarters year over year. Employment growth was 2.8% in 2014 and 2.9% in 2015 and 4.2% for the 12 months ending in September 2016.

With the strong employment growth and geographic constraints, the region is in demand for national and international investors. Apartments remain at a plateau at the peak of the cycle as prices continue to increase even as a large number of new units were delivered to the market and rent growth has started to moderate. Most of the office based employment growth has occurred in the Seattle and Bellevue CBDs in King County, and these two markets have seen the bulk of new development. Industrial real estate has strong occupancy and high prices with institutions looking for traditional warehouse product and owner users dominating close in Seattle markets. The retail market is strong in core trade areas. Daily needs retail—food and drugs—is the strongest sector. New home inventories are low and infill construction is active.

### **Population**

During the past 40 years, the population of Washington has grown by an average of approximately 20% per decade, according to the Puget Sound Regional Council (PSRC). The five counties that comprise the Central Puget Sound Region and account for 59% of Washington's 2015 population (7,061,410) experienced a population increase of 13.7% during the previous decade. The region's growth rate was 1.3% in 2015,

following 2014 at 1.4%, with in-migration fueled by job growth. Preliminary estimates for 2016 are for 1.3% growth.

## Employment

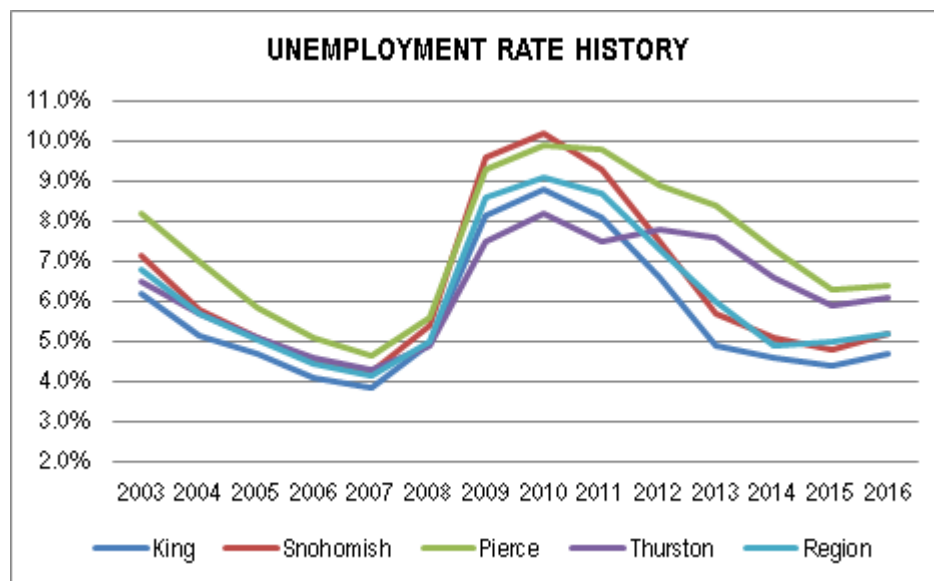
Regional employment is at an all-time high, well above the previous high in 2009. The recovery began in 2011. Year over year employment growth was a robust 4.2%, ranging from mild growth of 1.5% in Kitsap to 4.8% in King and Snohomish.

## Non-Farm Employment

County	SEPTEMBER 2015		SEPTEMBER 2016	
	Jobs	Unemployment	Jobs	Unemployment
King	1,123,838	4.6%	1,177,410	4.0%
Snohomish	382,221	4.9%	400,553	4.3%
Pierce	366,110	5.8%	378,562	6.0%
Thurston	117,443	5.4%	120,042	5.7%
Kitsap	108,117	5.0%	109,741	5.7%

Source: Washington State Employment Security Department

In the individual projections, King and Snohomish showed the fastest recovery. Pierce and Thurston have taken more time with the cut back of government jobs kicking the rate back up in 2012.



Source: Washington State Employment Security Department

The unemployment rate is expected to continue to decline, moderated slightly by the return to the labor force of those persons uncoun-  
(unemployed but not actively seeking employment) and under-employed, both of whom are not reflected in the current calculation.

Amazon has been the biggest single contributor to employment growth. The company's employment in the state is about 24,000, almost all in Seattle. Amazon shows no signs of slowing anytime soon. The company's confidence in that was underlined by the construction on the first two of three 1.1 million sq ft office buildings for its own use, in addition to announcing leases for 1.3 million sq ft in other Seattle projects. Microsoft had more local employees at 43,618 at the end of 2015 but the growth rate is much lower. Significant expansions are being made by Facebook, Tableau, Zillow, and Google.

The region's largest employer remains Boeing with a total of 77,671 employees in Washington, almost all of those in King, Snohomish, and Pierce counties. However, Boeing continues to reduce jobs, dropping 2,528 between January 2015 and March 2016. Boeing employment was 6.3% of the region in 1997 and this has declined to 3.9% in 2016. There is less hope of a future increase as Boeing has diversified in other states.

## Economic Indicators

The finance, insurance, and real estate (FIRE) and construction sectors have recovered as commercial and residential construction continues to expand. Manufacturing losses were led by those Boeing jobs, with a myriad of smaller companies cutting back by smaller amounts. Many of those Boeing jobs have now been lost. Retail job gains follow the increases in retail sales volume. Sales growth continues its fifth year of increases with a robust gain in 2015, the strongest rate in 12 years.

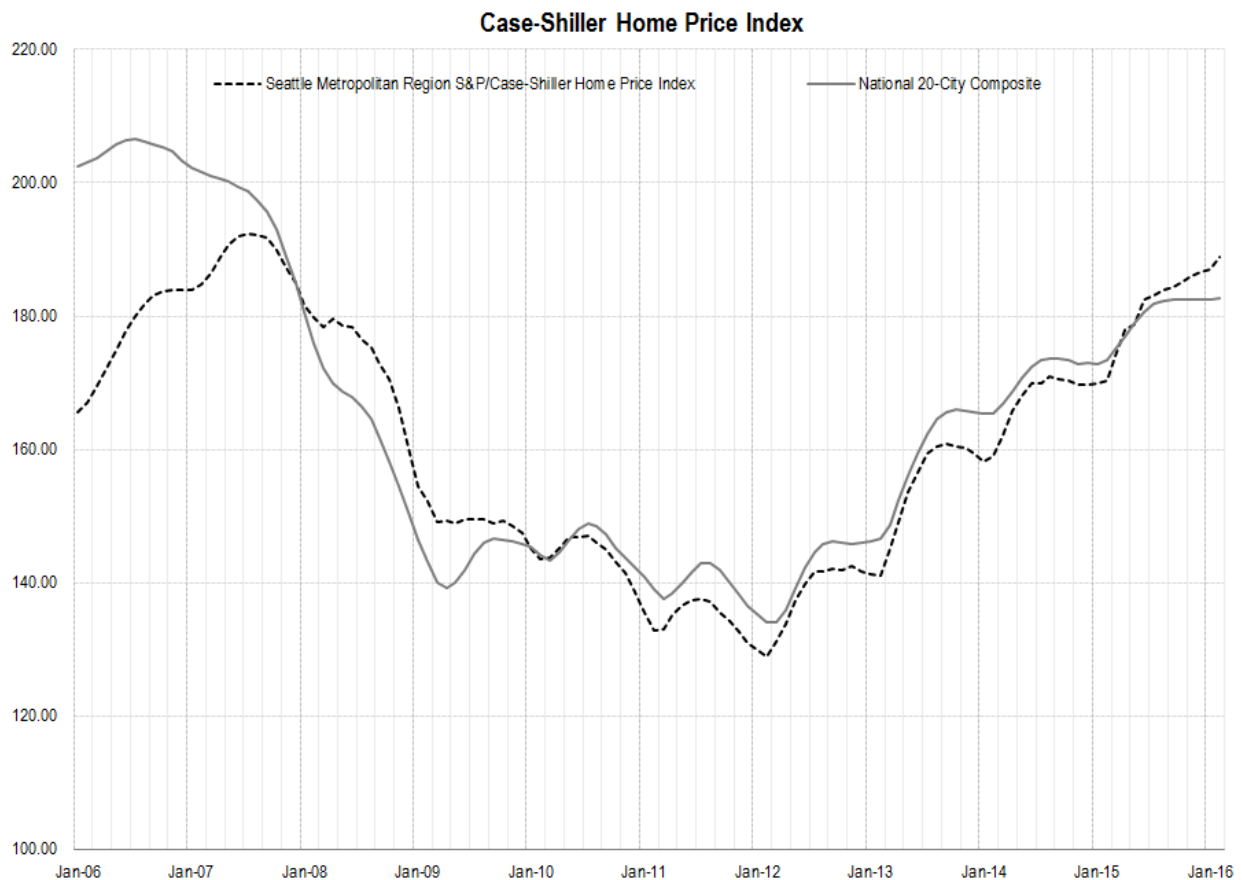
### Washington State Retail Sales (\$,000)

	2015	2014	2013	2012	2011	2010
4Q	35,979,968	33,372,252	31,172,889	29,435,885	2,7890,822	26,780,864
3Q	35,837,473	33,249,625	28,788,875	28,766,782	27,293,863	26,469,373
2Q	33,856,679	30,973,320	28,998,096	26,803,035	25,613,078	24,895,067
1Q	29,689,766	27,248,916	25,985,522	24,028,170	22,943,062	22,629,812
<b>Total</b>	<b>135,363,886</b>	<b>124,844,113</b>	<b>114,945,382</b>	<b>109,033,872</b>	<b>103,740,825</b>	<b>100,777,126</b>
<b>Change</b>	<b>9.1%</b>	<b>8.6%</b>	<b>5.4%</b>	<b>5.1%</b>	<b>2.9%</b>	<b>-0.1%</b>

Personal income increased an average of 4.2% between 2010 and 2014, spiking at 6.5% in 2014. The forecast is 5.3% in 2016 and 4.3% in 2017. These gains are amplified by low inflation, which averaged 1.9% over the past five years. The CPI increase for 2015 was 1.4%, expected to increase to 2.4% in 2016 and 2017.

## Regional Housing Market

The housing market has shown varying levels of recovery, based on location and price point. Sales started to recover in 2012 with a 20% increase in King and Snohomish Counties. Pierce County remained soft, increasing only 3.5%, reflecting a lack of job growth. Values also first started to recover in 2012. These trends continued through 2015. King County sales increased by 10.8% in 2015, with new home sales up 9.2%. Snohomish was up 0.8% and Pierce showed pent up demand with sales up 2.8% after increasing 22% in 2013. Sales volume increased 18.4% in Snohomish in 2015 (27.0% in new construction) and 16.7% (3.6% new) in Pierce. Median prices were up 8.1% in King, 8.9% in Snohomish, and 8.7% in Pierce in 2015.



Standard & Poor's Case-Shiller Index improved for each month since May 2012 except for some minor seasonal dips in the 3<sup>rd</sup> quarters of 2013–2015. Improvement was 12.2% in 2013, 6.5% in 2014, and 9.9% in 2015, and continued up through the first two months of 2016. Prices are now only 1.8% from the peak prior to the recession (better than the national prices still down 11.5%). Improvement has been stronger in Seattle's

close-in neighborhoods and on the Eastside around Bellevue. In those markets, inventory levels are very low, creating over-bids in popular neighborhoods. Housing-permit activity increased by 16.9% in 2014 and 19.8% in 2015. That is forecast to reverse with a 19.3% decrease in 2016 as builders keep inventories low and close-in sites are rare. Permits are then expected to increase at moderate 2.2% to 4.7% rates in 2017/2018.

## Commercial Real Estate Markets

The region ranks in the top five national investment markets. Class A core apartments, office, retail, and industrial properties are all still on the institutional buyers' list with strong demand and pricing. Apartments have been at the top of the cycle for several quarters now. The other categories are still ascending. Vacancy rates in the region are as follows:

### Regional Vacancy Rates - 3Q 2016

Segment	Seattle	King	Pierce	Snohomish	Kitsap	Thurston
Office	6.9%	7.2%	7.1%	6.4%	7.2%	6.7%
Industrial	1.9%	2.7%	5.4%	3.9%	1.4%	2.5%
Apartment	4.0%	3.7%	2.8%	4.0%	2.3%	2.6%
Retail	2.0%	3.1%	4.9%	4.3%	6.8%	4.4%

Source: CoStar, Dupre+Scott (apartment)

Even though rent growth in the apartment market has started to moderate, prices continue to increase as cap rates remain very low, tied to low interest rates and the low perceived risk. This will be tested as new construction deliveries peak in 2016/2017 in both the apartment and office categories. The apartment market continues to expand with nearly 19,000 units under construction in the region. The bulk of those are in larger projects in the area around the Seattle CBD, but development has begun to increase in the suburban markets as well.

The office market has seen most demand in the core markets like Seattle and Bellevue CBDs. Amazon is building for itself and remains one of the top lessees as well. Developers are doing build-to-suits for Facebook, Google, and Tableau.

Industrial leasing is strong. This may be a factor of higher rents that are up more than 20% over the past three years. Retail has shown improvement, with vacancy down and rental rates moving up in stable and strong trade areas. Both industrial and retail markets have been boosted by increased retail sales.

The lodging market has continued to improve, reflecting the tourist draw of the region and strong conference business. Long term, each sector's expansion is limited by available land, a major reason that investors rank the region so highly.

Investors have begun to back off on some pricing parameters with fewer rent spikes and increased terminal capitalization rates as eventual interest rate growth is acknowledged. That factor will likely have an effect on going-in rates at the next increase as the previous one was absorbed via lower equity return. Many investors do not plan to repeat that adjustment.

#### **Area Market Summary**

The long-term outlook for the region continues to be better than most markets nationwide. The recovery has been strong for four years. Job growth may have peaked in 2015 with 2.9% growth, but the projected fall-off has repeatedly been reduced. Retail sales showed a very strong increase in 2015, with only minor signs of slowing so far in 2016. The region is expected to outperform most of the nation, based on the diversified core of the economy anchored by Microsoft, Amazon, and Boeing as specific examples. Even though two of those three shed jobs in 2014 and in early 2015, those losses were covered by the growth of Amazon and other tech companies.

Most of the local real estate markets are in some level of ascendance, or extended peak-plateau. Apartments are perched at a plateau with no signs of descent near-term. Investment activity continues to increase primarily in the best quality properties in all categories by institutional investors. Sales have increased in the value-add sector of the office, apartment, and retail markets as the returns available on Class A properties are squeezed by high demand.

2014 and 2015 were both stronger years than initially forecast across the region. The forecasts for 2016 appear to be conservative, and job growth has not yet slowed. If the rate of growth slows in 2017, this will test the apartment market since a large number of units are scheduled for completion in 2016 and 2017. It should have less effect on the office and retail categories where demand for space tends to lag job growth by a few quarters. The real estate markets in the region have solid fundamentals due to the broad-based economy.

# Neighborhood Description

## Introduction

The subject is located in the north-central portion of incorporated Lacey, Thurston County. Olympia is adjacent directly to the west and the Hawk's Prairie retail and industrial area is to the east. A location map is shown on the previous page, with the subject's location noted. The subject is part of the Lacey's primary retail and office node that follows on both sides of I-5 and Martin Rd. between Boulevard Rd. to the west and Marvin Rd. to the east. This commercial concentration serves Tumwater, Olympia and Yelm. The subject's immediate neighborhood is moving toward office uses, and new retail development is most active at the intersection of Marvin Rd. and I-5.

## Nearby and Adjacent Land Uses

The subject is part of the micro-market of office and retail space between College and Sleater-Kinney Rd. SE. I-5 is nearly adjacent to the north and the south boundary of the immediate neighborhood is Pacific Ave. SE, a major east-west thoroughfare. Overall, there has been very little change in the neighborhood in recent years. Vacancy increased dramatically as a number of buildings were delivered as the recession hit. A number of State agencies also then opted to condense their operations into fewer buildings and many relocated for newer or build-to-suit buildings in Tumwater. This effect has slowed significantly in recent years, but has hit the subject's immediate office node particularly hard. This node of over 40 office buildings accounts for just over half of Lacey's office inventory, but about 88% of the submarket vacancy, which currently sits at 12.90%.

To the west are a Fred Meyer and a retail power center anchored by Sears, Target and Kohls. To the east, across College St. SE, is the St. Martins University campus and St. Martins Park. Beyond Pacific Ave. SE to the south, uses quickly transition to single-family residential uses. To the north of I-5, there are a few older retail uses, the largest being Lowe's, but uses also quickly transition to residential.

## Access

Access to the neighborhood is provided by two major north-south streets (Sleater-Kinney and College), each providing access to full I-5 interchanges. East-west traffic is concentrated on two arterials in addition to I-5: Martin Way E. and Pacific Ave. SE. Access through the remaining portion of the neighborhood is a full grid of local streets, some of which are interrupted by larger parcels, I-5, and St. Martins Park.

A Thurston County Transit station is located just northwest of the subject at Golf Club Pl. SE and 6th Ave. SE. This feature is helpful for many office tenants and improves the subject's overall access.

**Neighborhood  
Demographics**

Lacey's demographics are generally positive with a forecasted population growth of 1.41% annually, above county levels of 1.24%. Owner-occupied housing and household incomes are slightly below county and state levels. Demographics with the subject's immediate vicinity are moderately below those of Lacey as a whole.

**Conclusion**

Lacey is a mid-size community with a full array of housing and services. The subject's immediate neighborhood is centrally located with very good access throughout the city and the region with two interchanges with I-5 within a mile of the subject. Development was paused for all product types during the recession, but returned in the last few years with a number of retail, residential and industrial deliveries. Surrounding uses are supportive of office use, but the submarket is still recovering from high vacancy and reduction of government office space demand.

# Office Market Overview

## Lacey Office Submarket

Quarter	Inventory Bldgs	Inventory SF	Vacant SF Total	Vacant Percent Total	Net Absorption SF Total	Deliveries Bldgs	Deliveries SF	Under Construction Bldgs	Under Construction SF	Office Base Rent Overall
QTD	135	2,086,377	272,231	13.00%	(2,119)	0	0	0	0	\$15.35/NNN
2016 Q3	135	2,086,377	270,112	12.90%	14,625	0	0	0	0	\$15.42/NNN
2016 Q2	135	2,086,377	284,737	13.60%	60,628	1	16,700	0	0	\$16.00/NNN
2016 Q1	134	2,069,677	328,665	15.90%	484	0	0	1	16,700	\$15.89/NNN
2015 Q4	134	2,069,677	329,149	15.90%	2,950	0	0	1	16,700	\$15.92/NNN
2015 Q3	134	2,069,677	332,099	16.00%	(2,756)	0	0	0	0	\$16.04/NNN
2015 Q2	134	2,069,677	329,343	15.90%	8,576	0	0	0	0	\$15.95/NNN
2015 Q1	134	2,069,677	337,919	16.30%	3,819	0	0	0	0	\$15.96/NNN
2014 Q4	134	2,069,677	341,738	16.50%	60,729	0	0	0	0	\$15.94/NNN
2014 Q3	134	2,069,677	402,467	19.40%	(67,203)	0	0	0	0	\$15.28/NNN
2014 Q2	134	2,069,677	335,264	16.20%	5,442	0	0	0	0	\$14.51/NNN
2014 Q1	134	2,069,677	340,706	16.50%	(35,191)	0	0	0	0	\$14.50/NNN
2013 Q4	134	2,069,677	305,515	14.80%	4,780	1	2,800	0	0	\$14.61/NNN
2013 Q3	133	2,066,877	307,495	14.90%	(20,508)	0	0	1	2,800	\$14.76/NNN
2013 Q2	133	2,066,877	286,987	13.90%	60,100	0	0	1	2,800	\$14.48/NNN
2013 Q1	133	2,066,877	347,087	16.80%	15,841	0	0	1	2,800	\$14.60/NNN
2012 Q4	133	2,066,877	362,928	17.60%	16,359	0	0	0	0	\$14.57/NNN
2012 Q3	133	2,066,877	379,287	18.40%	(87,784)	0	0	0	0	\$14.60/NNN
2012 Q2	133	2,066,877	291,503	14.10%	9,325	0	0	0	0	\$14.98/NNN
2012 Q1	133	2,066,877	300,828	14.60%	(5,942)	0	0	0	0	\$14.78/NNN
2011 Q4	133	2,066,877	294,886	14.30%	3,322	0	0	0	0	\$15.02/NNN
2011 Q3	133	2,066,877	298,208	14.40%	(16,707)	1	4,723	0	0	\$14.89/NNN
2011 Q2	132	2,062,154	276,778	13.40%	5,912	0	0	1	4,723	\$14.93/NNN
2011 Q1	132	2,062,154	282,690	13.70%	(6,731)	0	0	0	0	\$15.07/NNN
2010 Q4	132	2,062,154	275,959	13.40%	28,274	0	0	0	0	\$15.23/NNN
2010 Q3	132	2,062,154	304,233	14.80%	(32,516)	0	0	0	0	\$15.55/NNN
2010 Q2	132	2,062,154	271,717	13.20%	(2,896)	0	0	0	0	\$15.70/NNN
2010 Q1	132	2,062,154	268,821	13.00%	5,152	0	0	0	0	\$15.78/NNN

## Office Market Overview

### **Thurston County Submarket**

In the Thurston County market, Washington State is the largest office user by far, in both owned and leased space. Beginning with space directly around the capital and most recently expansions in Tumwater and Lacey prior to the recession. The State occupies multiple buildings in Tumwater, Lacey, Downtown Olympia and peripheral markets surrounding Olympia's downtown core.

The current Thurston County office inventory totals just under 9.7 million sq ft of space among 860 buildings (illustrating the small average size of office buildings in the market). The market's current office vacancy rate is reported by CoStar for Q3 of 2016 is 6.8%, which is down from 8.9% a year ago and highs of 11.50% two years ago. After increasing from a low of 8.6% in the 4<sup>th</sup> quarter of 2009 to a high of 11.6% in the 3rd quarter of 2010, vacancy fluctuated modestly through year-end 2014 before beginning to fall.

Although not listed within Costar, there is currently one project under construction, an 81,065 sq ft building in Tumwater that is 65% pre-leased to the Department of Revenue. Other than this, there has only been one other delivery at 16,700 sq ft in the last 3 years, which was a build-to-suit in Lacey. Even in the stronger markets, office sales in the Thurston County market have been limited. Some of the recent sales have still been distressed to some degree including high vacancy and/or seller motivation. Market activity has increased in core asset properties with some funneling down to suburban markets including the local Thurston County investor market.

### **Tumwater/South Olympia Office Submarket**

An historical overview of the subject's Lacey office submarket is shown in the preceding table. The current submarket inventory totals just over 2M sq ft of office space in 135 buildings. The only recent construction within this submarket was the Q2 2016 addition of a 16,700 sq ft, build-to-suit office for BioLife Plasma. The lack of new construction as well as the final consolidation efforts from certain government agencies in the market will help this market begin to recover.

### **MARKET VACANCY AND ABSORPTION**

The submarket's vacancy rate is reported at 12.90% as of Q3 of 2016, which is well above the office vacancy for Thurston County as a whole. Office vacancy quickly rose from a low point of 7.0% in Q3 of 2007 up to 13.50% by the end of 2008. This was driven by the start of the national recession as well as the delivery of just over 100k sq ft in 2008. From that point through 2013, vacancy mainly hovered between 13% to 15% before

peaking at 19.40% in Q3 of 2014. Since 2008, no significant office additions have been made to the submarket. Absorption remained mixed with significant losses in 2012 and 2014, and moderate gains made in 2013. More recently the submarket absorbed 12,589 sq ft in 2015 and 73,618 sq ft YTD in 2016. This absorption has brought vacancy down about 300 basis points from a year ago.

However, it is important to note that within the subject's immediate neighborhood (bounded by Pacific Ave., College St. SE, I-5, and Sleater Kinney Rd. SE) accounts for much of this vacancy. This pocket represents about 52% of Lacey's office inventory, but accounts for about 88% of the submarket vacancy.

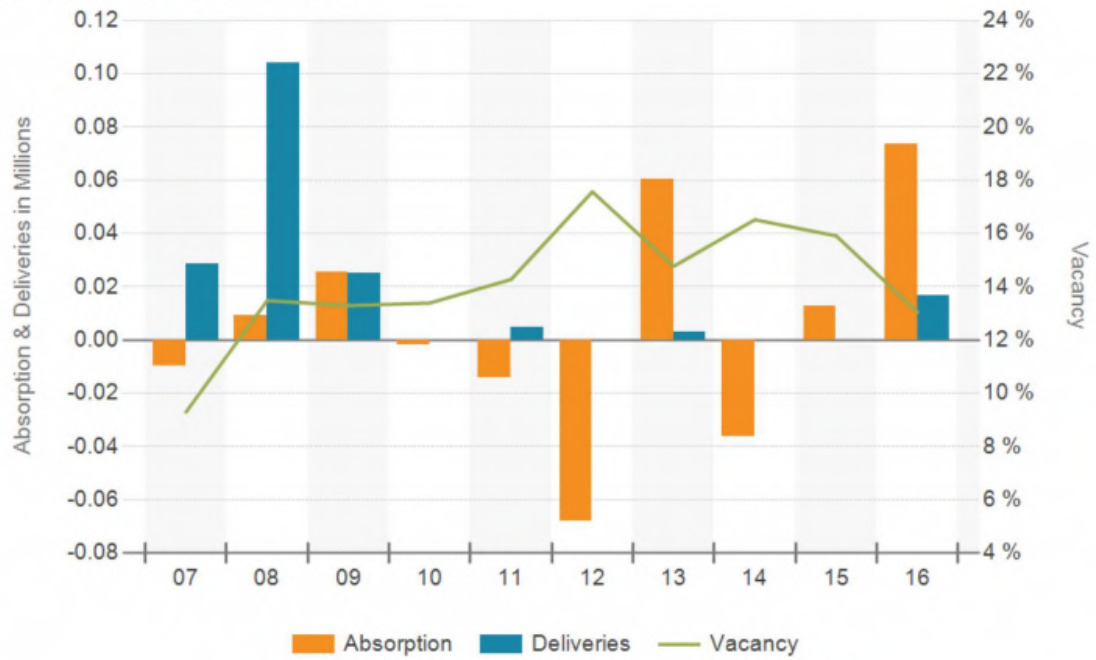
#### **RENTAL RATES**

Average reported rental rates around \$18/sq ft prior to the recession trended quickly downward during 2009, leveling off around \$14 to \$15/sq ft. Since then rates have remained largely flat with slight increases towards \$16/sq ft over the last two years. With this said, rental rates vary greatly depending on condition and quality of office. Average rates are often impacted by smaller buildings with offset locations and some inefficiencies. The newer, good quality office buildings are leasing at higher full service office rates typically between \$22.00 and \$28.00/sq ft.

#### **Summary**

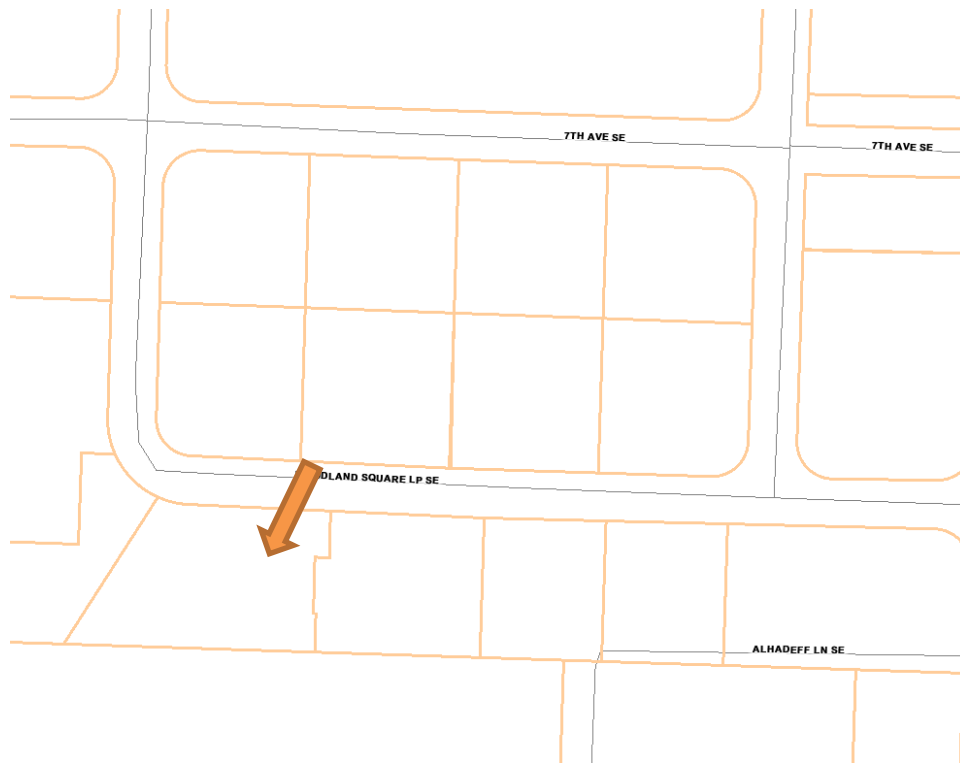
State government consolidation and downsizing had an adverse impact on the Thurston County office market, particularly between 2010 and early 2014, much of which occurred in Downtown Olympia. There has been some recent tightening and a lack of new construction has shown some modestly improving signs for the office market both in Thurston County and marginal improvements within the Lacey submarket. Although, properties in the subject's immediate office node are still seeing slow leasing activity and a vacancy rate of almost 22% (12.90% within the greater Lacey submarket).

### Absorption, Deliveries, Vacancy



Source: CoStar – November 2016

# Property Description



Parcel Map

# Property Description

## Introduction

The subject is a four-story office building located in Lacey's Woodland District. The 1987, reinforced-concrete structure contains 33,269 sq ft and is currently in poor condition, requiring substantial work.

## Identity of Property

Location: 629 Woodland Square Loop SE

City: Lacey

Parcel Numbers: 84990001400

Liens and Encumbrances: We have been provided with a Title Report prepared by First American Title Insurance Company and dated September 2, 2016. Typical utility easements are noted in the report. Our evaluation presumes the site is absent of significant easements or encumbrances that would impact the market value of the subject.

The improvements are currently 100% vacant.

## SIZE & SHAPE

The subject's parcel is a generally function rectangle with a slight point forming to the southwest. It is located along Woodland Sq. Loop SE, just as it starts to turn north towards 7<sup>th</sup> Ave. SE. According to the Thurston County Assessor, the subject contains 1.08 acres of land area.

## STREETS, ACCESS & EXPOSURE

Woodland Sq. Loop SE is a two-way street with a single lane of traffic in each direction as well as on-street parking. It is improved with curbs and lighted sidewalks. Primary access to the subject's office node is via College St. SE to the east, but additional access is available through side streets to the south and west.

Accessibility is good given its access to local arterials and I-5 to the north. Visibility is average, as it has no frontage along local arterials.

## TOPOGRAPHY & SOIL CONDITIONS

The site is level and at-grade with neighboring parcels and roads.

We were not provided with any soils reports and we assume the soils are adequate to support any building improvements that might represent the highest and best use of the site. No obvious signs of settling were noted upon inspection; however, this should not be construed as a guarantee that the soils are adequate to support its current use.

**UTILITIES** All normal public utilities are available to the subject site.

**ASSESSOR'S INFORMATION** The assessed value is 145% of our value conclusion of \$1,950,000.

**Real Estate Tax Analysis**

APN # 84990001400

Year	Assessed Values			Taxes & Fees				Levy Rate
	Total	Land	Building	Taxes	Weed	Cons	Total	
2016	\$2,832,750	\$383,550	\$2,449,200	\$35,796.00	\$4.83	\$5.00	\$35,805.83	\$12.636484
2015	\$2,616,650	\$406,150	\$2,210,500	\$34,113.75	\$4.83	\$5.00	\$34,123.58	\$13.037185

**ZONING** The subject is zoned Urban Neighborhood 1 within the Woodland District zoning, dictated by the City of Lacey. This is intended to encourage a diversity of uses in the city core that are pedestrian and transit friendly. A variety of commercial uses are permitted, focused on service, medical, educational, office, and locally-serving retail. Multi-family, residential uses are also permitted. No maximum FAR is specified and required office parking is 1.5 to 2 stalls per 1,000 sq ft depending on customer service components.

While the subject could benefit from additional parking, it appears that its current improvements are legally conforming to current zoning.

**CONCLUSION** In summary, the site characteristics are similar to other properties in the immediate vicinity. There are no site conditions known to the appraisers that have a negative impact on the value or marketability of the subject site.

**Description of Improvements**

**INTRODUCTION** The site is improved with an average quality, Class "B" office building. It is currently in poor condition and includes 33,269 sq ft of rentable area. Per the receiver, the building's four floors are to be heavily gutted and a new HVAC system is to be installed, as space heaters are currently used in the building. All this work is to be completed by the end of 2016. This will leave the building with a functional envelope, but it will need to be built-out significantly for tenancy.

**PHYSICAL AGE** The building was constructed in 1987, and it has an estimated effective age of 45 years.

**FRAMING & EXTERIOR** The foundation is poured in-place concrete slab on grade. The roof is a flat membrane. The structure features mostly concrete and tile finishes with minimal decorative elements. Its primary entrance is to the north, which has a covered entryway with large, concrete pillars.

**INTERIOR LAYOUT / FINISHES** The subject's four floors are built-out for typical office use with a small lobby to the north that allows for access to the single, functioning elevator. The building currently has an average mix of private offices, staff areas, conference rooms, and open cubical space. After the subject's interior demolition work through the end of 2016, the building will require a significant amount of TI work; however, this future TI work will leave the structure in an updated, functional condition.

**SITE IMPROVEMENTS & PARKING** Given the shape of the subject's parcel and central location of the office building, its parking lot is somewhat dominated by parking lot navigation routes and is quite inefficient. It contains roughly 82 parking stalls, which equates to 2.5 spaces per 1,000 sq ft and exceeds zoning requirements.

The property features moderate landscaping along the building and street frontage, including a variety of trees and shrubs.

**CONDITION & FUNCTIONAL UTILITY** The building is in poor condition, but its layout is generally functional and would appeal to a variety of office users.

# Highest & Best Use

# Highest & Best Use

“Highest & Best Use” is defined by the Appraisal Institute as:

*The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.*

*Source: The Dictionary of Real Estate Appraisal, Sixth Edition. Chicago: Appraisal Institute, 2015.*

## **As if Vacant**

The subject is zoned Urban Neighborhood 1 within the Woodland District zoning, dictated by the City of Lacey. This is intended to encourage a diversity of uses in the city core that are pedestrian and transit friendly. A variety of commercial uses are permitted, focused on service, medical, educational, office, and locally-serving retail. Multi-family, residential uses are also allowed. No maximum FAR is specified. The subject's size, shape, and topography are sufficiently conducive to support a variety of uses. Surrounding properties are almost exclusively office uses, transitioning to retail further to the west. Recent office development has been limited to a very few owner-user and pre-leased projects, with retail activity increases concentrated in superior retail pockets like Hawk's Prairie. The highest and best use of the site as if vacant is for commercial development, as dictated by market demand and conditions.

## **As Improved**

The subject is an average quality office building that is in poor condition and requires a significant amount of work, although the interior demolition work and new HVAC system are to be completed/installed by the end of 2016. As shown later in this report, the subject's improvements still contribute significant value to the site; therefore, a full demolition is not likely. As of the effective date of this appraisal, the building envelope will be functional and ready to be built-out for tenancy. This could involve a conversion into another use such as multi-family, but, per discussions with local brokers, this is somewhat unlikely given the subject's market positioning. Due to the layout of the subject improvements and current market conditions, an addition is not feasible. As a result, the highest and best use is for the building to be significantly renovated, as dictated by market demand.

# Sales Comparison Approach



## Sales Comparison Map

## Sales Comparison Photographs

### Comparable 1

6th & Woodland Building  
673 Woodland Sq. Loop SE  
Lacey, WA



### Comparable 2

Former Pacific Rim Building  
2111 S. 90th St.  
Tacoma, WA



### Comparable 3

512 Building Conversion  
512 12th Ave. SE  
Olympia, WA



## Sales Comparison Photographs

### **Comparable 4**

Former First American Plaza  
3866 S. 74th St.  
Tacoma, WA



### **Comparable 5**

SEIU Office Building  
33615 1st Way S.  
Federal Way, WA



No	Name / Location	Year Build	Land LTB Ratio	Sale Date	Sale Price	Price/SF	Cap Rate	Buyer / Seller / Source	Comments
		GLA	Pkg Ratio			\$NOI/SF			

1.	6th & Woodland Bldg 673 Woodland Sq Lp SE Lacey, WA	2008 Masonry 61,472	67,954 1.11 2.8/Ksf	May-12	\$5,743,400	\$93	NA NA	DM Ventures-Lacey, LLC Opus Bank  Rob Knowles, JSH, 425.455.0500	Newer office building in good condition, but only 38% occupied ATOS. Investor purchased through REO sale with a pro-forma cap rate of 6.1%. Much of vacancy is shell.
2.	Former Pacific Rim Bldg 2111 S. 90th Street Tacoma, WA	1989 Masonry 24,726	149,396 6.04 8.5/Ksf	Mar-15	\$1,550,000	\$63	NA NA	3215 Building, LLC Oscar Pacific Rim, LLC  Brent Torquist, Windermere, 253.988.3756	Sale of a fully vacant building, built-out with a mix of medical space, classrooms, and 20% office. It was on the market for 3 years before selling to an owner-user.
3.	512 Building Conversion 512 12th Ave. SE Olympia, WA	1989 Masonry 30,872	23,087 0.75 2.3/Ksf	Jan-15	\$1,850,000	\$60	NA NA	3rd Gen Inv. Group, LLC CRP Properties Inc.  Evan Parker, KM, 360.556.0107	REO sale of a former multi-tenant office building that was 100% vacant ATOS. Purchased for a conversion to 43-unit multi-family project. Sold for \$151/sf in 2008 as a stabilized property, including a government tenant.
4.	Former First American Plaza 3866 S. 74th St. Tacoma, WA	1995 Masonry 22,624	47,400 2.10 See Notes	Feb-15	\$1,950,000	\$86	NA NA	Acorn Two, LLC First American Title Insurance Ben Norbe, KM, 253.722.1410	Office building in Tacoma that was vacant ATOS and on the market for several years. Purchased by dentist that will occupy 1st floor and lease the remainder. In good condition. Parking is ample with easement on neighboring lot.
5.	SEIU Office Building 33615 1st Way S. Federal Way, WA	1988 Masonry 24,330	43,556 1.79 4.1/Ksf	Jan-15	\$1,899,000	\$78	NA NA	FW98003 LLC SEIU Local 775  Mark Clirehugh, KM, 253.722.1416	100% vacant at the time of sale. Buyer was an owner user and building is in average condition.
	Subject 629 Woodland Sq. Loop SE Lacey, WA	1987 Masonry 33,269	46,914 1.41 2.5/Ksf	Appraisal Rounded	\$1,996,140 \$2,000,000	\$60 \$60			

# Sales Comparison Approach

## Introduction

The Sales Comparison Approach is based on the premise that market value of the property is directly related to recent sale prices of competitive properties and the availability of substitute properties with similar utility and desirability. The most similar sales of properties are investigated and compared to the subject. In this report, we analyze the subject against other high vacancy properties in the region. These comparables are summarized in the table on the facing page. Photographs and a location map are presented on previous pages.

Five improved, high-vacancy sale comparisons were selected that are reasonably similar to the subject, indicating a range in value of \$60/sq ft to \$93/sq ft. All are located in the Puget Sound Region and attracted a variety of owner-users and investors. The improvements range approximately between 22k and 61k sq ft of rentable area. Building ages vary between 1988 and 2008, with many requiring significant renovation or build-out costs. Sales dates range from May 2012 to March 2015. Comparable factors analyzed within each sale include sale and market conditions, location, age/condition, LTB ratio/parking, size, function, and tenancy.

The high end of the range (No. 1 at \$93/sq ft) is the May 2012, REO sale of the 6<sup>th</sup> & Woodland Building just to the northeast of the subject. The 61,472 sq ft structure was delivered in 2008 at the start of the recession and was at 38% occupancy at the time of sale. Much of the vacancy was in shell condition and the bank was motivated to sell the property. The building is of a newer, higher quality construction and indicates a much lower price per square foot for the subject.

Just below this is the February 2015 sale of a 22,624 sq ft office building in Tacoma (No. 4 at \$86/sq ft). The 1995 vintage structure was vacated by First American Title Insurance and sat unoccupied for a number of years. It was purchased by a dentist that will occupy the 1<sup>st</sup> floor and lease the remainder to multiple tenants. No. 5 in Federal Way (\$78/sq ft) is another fully vacant building of similar size that sold to an owner-user. It was also in decent condition and largely functional at the time of sale. Given the superior condition, parking, and market positioning of these comparables, the subject would warrant a much lower price per square foot.

The remaining two comparables are No. 2 (\$63/sq ft) and No. 3 (\$60/sq ft). No. 2 is the sale of the Former Pacific Rim Building, a 24,726 sq ft

structure from 1989. It had a very unique and undesirable build-out with medical space and very small offices on the 1<sup>st</sup> floor and mostly classrooms on the 2<sup>nd</sup> floor. It was in fair condition and sat on the market for about 3-years before selling to an owner-user.

No. 3 is the sale of a 30,872 sq ft, former multi-tenant office building near downtown Olympia. It was vacant at the time of sale and the buyer intended to fully renovate the structure into a 43-unit multi-family project. It also sat on the market for an extended period of time and was valued primarily on its building envelope.

Sales No. 2 & 3 are the strongest indicators for the subject given the subject's current condition and appeal as a basic building envelope. As such, they are given primary weight in our analysis.

**Stabilized Market  
Value**

Considering all factors, the stabilized market value of the subject is estimated at:

$$33,269 \text{ sq ft} \times \$60/\text{sq ft} = \$2,000,000 \text{ (Rounded)}$$

# Income Capitalization Approach

# Income Capitalization Approach

## **Introduction**

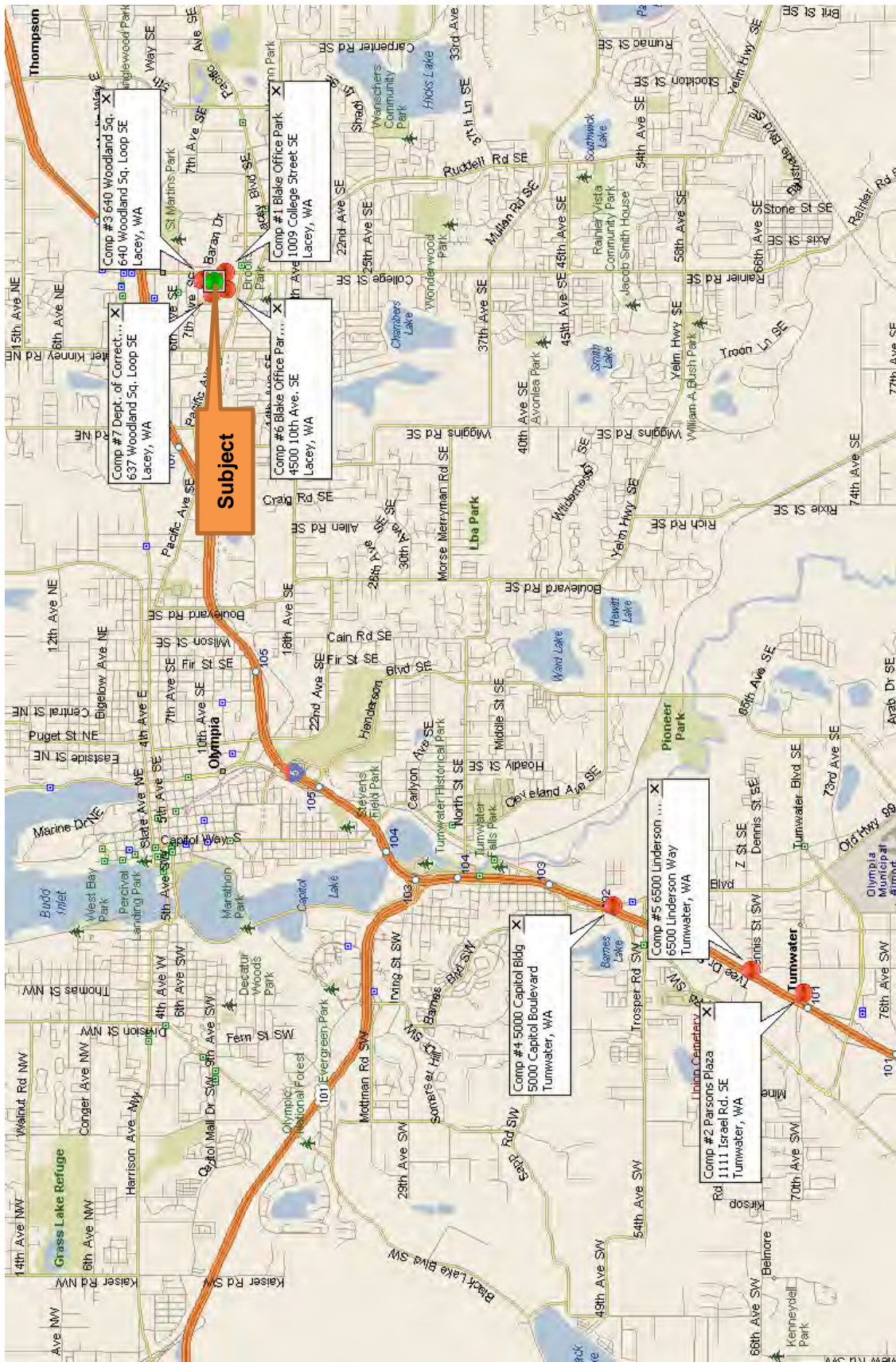
The Income Capitalization Approach is based on the precept that an income-producing property is typically purchased as an investment, and therefore the earning power of the asset is critical to understanding the property's value. This approach is developed by analyzing the property's income and expenses over the following base year to forecast the most probable stabilized net operating income (NOI). The estimated NOI is then capitalized at a market-derived capitalization rate to arrive at a price an investor might be willing to pay for the property. Data used in this approach includes a mixture of general and specific information resources. There are two methods typically used to indicate value: direct capitalization and yield capitalization (discounted cash flow analysis). In this case, direct capitalization is the most relevant and therefore used in this report.

## **Existing Lease Encumbrance (Contract Rent)**

The subject is currently 100% vacant.

## **Comparable Rental Data**

In order to determine market rent for the subject property, we have researched the subject's submarket for recent listings and signed leases. We have selected rent comparables from similar office properties.



# Rent Comparison Map

## Rent Comparison Photographs

**Comparable R-1**  
Blake Office Park  
1009 College St. SE  
Lacey, WA



**Comparable R-2**  
Parsons Plaza  
1111 Israel Rd. SE  
Tumwater, WA



**Comparable R-3**  
640 Woodland Sq. Loop SE  
Lacey, WA



## Rent Comparison Photographs

### **Comparable R-4**

5000 Capitol Building  
5000 Capitol Blvd.  
Tumwater, WA



### **Comparable R-5**

6500 Linderson Building  
6500 Linderson Way SW  
Tumwater, WA



### **Comparable R-6**

Blake Office Park - Bldg B  
4500 10th Ave. SE  
Lacey, WA



## Rent Comparison Photographs

### **Comparable R-7**

Dept. of Corrections Building  
640 Woodland Sq. Loop SE  
Lacey, WA



No	Name/Address	Age RA (SF) Stories	Tenant Area (SF)	Term	Start Date	Base Year Rent Ann. Escalations	Expenses	T1 Allowance Free Rent	Comments/Confirmation
1	Blake Office Park 1009 College Street SE Lacey, WA	1992 60,000 2-Story	16,783	10 Years	Jul-16	\$16.50 Flat	Mod. Gross	Minimal None	5-Year lease extension with tenant paying utilities, garbage, and janitorial expenses. TI work is considered minimal, primarily small building repairs. MG rate of \$16.50/sq ft.
2	Parsons Plaza 1111 Israel Rd. SE Tumwater, WA	2008 52,510 3-Story	18,816	2 Years	Feb-15	\$16.90 Flat	Mod. Gross	Minimal None	2-Year lease extension with tenant paying utilities, garbage, and janitorial expenses. No TI allowance or free rent was provided. Lease to Dept. of Corrections, with leased areas in two adjacent buildings. MG rate of \$16.90/sq ft. <i>Public Lease</i>
3	640 Woodland Sq. Building 640 Woodland Sq. Loop SE Lacey, WA	2003 84,149 3-Story	5,653	5 Years	Sep-15	\$18.60 Flat	Mod. Gross Equiv.	Minimal None	5-Year extension with tenant on a full service lease at \$21.60/sq ft. TI work is considered minimal, primarily small building repairs. Lease to Env. & Land Use Hearings Office. <i>Internal Records</i>
4	5000 Capitol Building 5000 Capitol Blvd. SE Tumwater, WA	1973; Ren. '02 46,080 2-Story	70,449	5 Years	Jul-16	\$16.40 Flat	Mod. Gross Equiv.	\$5.11/sq ft None	5-Year extension that slightly reduces tenant's area and makes it full service lease at \$19.40/sq ft. LL provided \$5.11/sq ft in TI, in addition to curing a number of deferred maintenance items. This includes HVAC work, new carpet/paint; other items that total \$22.48/sq ft. <i>Receivership Lease Files</i>
5	6500 Linderson Bldg 6500 Linderson Way SW Tumwater, WA	2003 96,103 3-Story	46,080	5 Years	May-17 (Aug. 2016 Renewal)	\$18.41 Flat	Mod. Gross	\$4.14/sq ft None	5-Year extension with tenant paying utilities, garbage, and janitorial expenses. No free rent or renewal options were provided to the tenant. Tenant previously renewed in 2012 at a flat \$17.35/sq ft and executed current renewal in August of 2016 at \$18.41/sq ft. <i>Receivership Files</i>
6	Blake Office Park - Bldg B 4500 10th Ave. SE Lacey, WA	1999 54,788 2-Story	96,103	5 Years	Jun-13	\$18.97 Flat	Mod. Gross	Minimal None	5-Year extension with tenant paying utilities, garbage, and janitorial expenses. No free rent or renewal options were provided to the tenant. <i>Internal Records/Public Lease</i>
7	Dept. of Corrections Building 637 Woodland Sq. Loop SE Lacey, WA	1986 18,104 2-Story	54,788	5 Years	Aug-14	\$17.25 Flat	Mod. Gross	Minimal None	5-Year renewal with DSHS paying utilities, garbage, and janitorial expenses. No TI allowance or free rent was provided. <i>Public Lease</i>
			18,104	5 Years	Jun-14	\$18.40 Flat	Mod. Gross	Minimal None	5-Year lease extension with tenant paying utilities, garbage, and janitorial expenses. No TI allowance or free rent was provided. Entire building leased to DSHS. <i>Receivership Files</i>
	Subject 629 Woodland Sq. Loop SE Lacey, WA	1987 33,269 4-Story	33,269	Appraisal		\$17.50 to \$18.50	Mod. Gross		

## **Comparative Analysis**

Rental rates for office properties are often quoted in a variety of gross and modified gross ways, with expenses being reimbursed to different extents. However, the majority of government office leases are on modified gross terms with the tenant covering utilities, janitorial, and garbage expenses. We analyze the comparables selected based on these same lease terms.

Seven recent, government leases within the subject's general submarket indicate modified gross rates of \$16.50/sq ft to \$18.97/sq ft with no escalations. The rent comparables reflect terms of two to ten years with no free rent. TI allowances are mostly basic repairs and maintenance, typical of government leases.

The high end of the range is marked by three leases in Tumwater (No. 2, 4, & 5 between \$18.41 and \$18.97). These government leases are all within good quality office buildings and benefit from positioning within a superior submarket. The subject would warrant a lower rental rate. These rates reflect similar quality buildings, but rates can easily exceed \$20/sq ft within higher quality, Class A office product.

The low end of the range (No. 1 at \$16.50/sq ft and \$16.90/sq ft) represents two recent leases within an older, 1992 vintage office building just south of the subject. The government tenants leases (16,783 sq ft and 18,816 sq ft) included minimal TI and no free rent. Given the construction and quality of the comparable, the subject would warrant a higher rental rate.

Adjacent to the subject, an 18,104 sq ft renewal with the Department of Corrections was signed in June of 2014 (No. 7 at \$18.40/sq ft). Although of a 1986 vintage, the structure is in good condition and has identical positioning as the subject. Considering the suite size and superior parking access, this marks the high end of similar leasing within the subject's immediate node. The subject would likely warrant a similar, to slightly lower rental rate.

Two additional, large leases have also been signed in recent years in in close proximity to the subject. In August of 2014, DSHS signed a 5-year renewal for the entirety of a 54,788 sq ft building in the Blake Office Park (No. 6 at \$17.25/sq ft). In July of 2016, the Employment Security Dept. renewed their 70,449 sq ft lease in the subject's sister building to the south at a modified gross equivalent rate of \$16.40/sq ft. The subject would warrant a higher rental rate given required TI investments and single-tenant building size.

<b>Market Rent Estimate</b>	Overall, the subject would warrant a market rent range of \$17.50/sq ft to \$18.50/sq ft. Typical, 5-year government lease terms are expected, including no escalations, minimal free rent, and minor TI allowance.
<b>Gross Rent Estimate</b>	Market rent is used in our analysis as the subject is currently 100% vacant. The projected gross rental income is estimated at \$598,842, or \$18.00/sq ft/year.
<b>Operating Expenses and Recoveries</b>	<p>As noted previously, market rent estimates for the subject are on a modified gross basis with the tenant paying for utilities, garbage collection, and janitorial. Historical expenses at the subject property were not available, so this appraisal relies on expenses from comparable office properties.</p> <p>Real estate taxes are estimated at \$1.08/sq ft, which is a 2.5% increase from the subject's 2016 tax assessment. Insurance expenses typically range from \$0.20 to \$0.30/sq ft for similar properties, indicating an average expense of \$0.20/sq ft for the subject. Management expenses usually range between 2% and 4% for office properties. Assuming continued single-tenant occupancy, a rate of 2% is used. Utilities are projected at \$2.00/sq ft based on comparables but are paid by the tenant. Repair and maintenance costs for similar properties typically range between \$0.75/sq ft and \$1.25/sq ft. Considering the subject's historical maintenance and projected building improvements, these expenses are forecasted at \$0.75/sq ft.</p> <p>Landscaping and security expenses typically range between \$0.20/sq ft and \$0.60/sq ft, indicating \$0.40/sq ft for the subject given its moderate landscaping. Janitorial expenses are also covered by the tenant, but are projected at comparable averages around \$1.00/sq ft. Miscellaneous expenses are projected to be minimal at \$0.05/sq ft. Recoverable expenses total \$195,464 per year or \$5.88/sq ft.</p> <p>Non-recoverable expenses are also considered in our analysis, which include reserves and other ownership expenses. These are projected at \$0.20/sq ft, bringing total property expenses projected to \$202,118 per year, or \$6.08/sq ft.</p>
<b>Vacancy &amp; Collection Loss</b>	A 5% vacancy and credit loss allowance is deducted from the estimated potential gross income. This rate is below the current Lacey submarket vacancy rate, but is in-line with how traditional investors would analyze the subject.

## Direct Capitalization

Direct capitalization is the process of converting the estimated stabilized net operating income into market value using a market derived overall capitalization rate. The overall rate is a ratio of net operating income to sales price, usually determined through recent sale comparisons. Of the comparables used in the Sales Comparison Approach, none reported capitalization rates, as they reflect high vacancy sales.

We conducted further research for additional sales taking place in the current market for office properties. The best and most current market capitalization rate data are outlined in the following table.

### RECENT CAPITALIZATION RATE SUMMARY

Property Name	City	Age	Bldg SF	Sale Date	Sale Price	Cap Rate
Richland Government Building	Richland	1995	57,937	Sep-15	\$6,300,000	8.49%
Social Security Building	Puyallup	2001	10,000	Sep-15	\$3,210,000	7.22%
DSHS	Seattle	1982; '08	40,738	Jul-15	\$8,200,000	6.50%
Washington Trucking Building	Federal Way	1980	11,500	Jun-15	\$1,300,000	8.30%
Maplewood Office Building	Federal Way	2005	32,074	May-15	\$5,850,000	7.40%
East Campus Corp. Park I	Federal Way	2001	105,807	Mar-15	\$17,900,000	7.50%
Union Ave. Medical Building	Tacoma	1986	19,643	Jan-15	\$3,710,458	7.98%
Chandler & Bristol Buildings	Olympia	1991/2000	103,618	Dec-14	\$15,000,000	8.30%
US Forest Service Building	Olympia	1991; '14	41,822	Dec-14	\$12,025,000	6.98%
Tacoma DSHS	Tacoma	1994	30,000	Oct-14	\$4,500,000	8.93%
King County Housing Building	Tukwila	1974	11,473	Aug-14	\$1,650,000	6.83%
M Parsons Plaza	Tumwater	2008	52,510	Jan-14	\$16,700,100	6.50%
FAA Building	Renton	1990	199,168	Nov-11	\$35,250,000	8.35%
Average						7.64%
Min						6.50%
Max						8.93%

The data show a range of capitalization rates mainly between 6.5% and 9.0% with an average just above 7.5%. Rates below 7% have typically been reserved for buildings with strong, long-term tenancy that benefit from close-in positioning and/or new construction. Into the 7-8% range you find older structures of good condition and solid tenancy, with rates increasing as building age and remaining term/tenant quality falls. Rates then quickly rise above 8% when significant vacancy is present, as leasing activity can be slow and there is still general uncertainty surrounding the submarket.

Overall, the subject would warrant a stabilized capitalization rate just above the middle of this range. This rate takes into consideration the substantial TI costs that would be put into the building in order to lease it up, leaving it in an updated, functional condition.

Another source for capitalization rates are investor surveys. On a national basis, the PwC Investor Survey 3<sup>rd</sup> Quarter 2016 reported the overall capitalization rate range for the Seattle Office Market at 4.5% to 8.00%. The average is 5.81%, down from 6.18% a year ago and 6.71% three years ago. Overall, rates in the Puget Sound Region are trending slightly higher than national rates.

Based upon all the above information and considering the condition of the subject property, an appropriate overall capitalization rate for the subject, as-stabilized, is a in the range of 7.50% to 8.00%. A summary of the direct capitalization analysis is shown on the following page.

## Summary of Direct Capitalization 629 Woodland Sq. Loop SE

Appraiser's Forecast			
INCOME	RA (SF)	FYE Dec '17	\$/SF/Yr
Market Rent	33,269	\$598,842	\$18.00
Reimbursable Expenses	33,269	\$99,807	\$3.00
<b>POTENTIAL GROSS INCOME (PGI)</b>	33,269	\$698,649	
<b>VACANCY &amp; COLLECTION LOSS</b>	5.0%	\$34,932	\$1.05
<b>EFFECTIVE GROSS INCOME (EGI)</b>		\$663,717	\$19.95
<b>EXPENSES</b>			
<b>RECOVERABLE</b>			
Real Estate Taxes		\$35,805.83	\$1.08
Insurance		\$6,653.80	\$0.20
Management	2.0%	\$13,274.33	\$0.40
Utilities		\$66,538.00	\$2.00
Landscaping & Security		\$13,307.60	\$0.40
Repairs & Maintenance		\$24,951.75	\$0.75
Janitorial		\$33,269.00	\$1.00
Miscellaneous		\$1,663.45	\$0.05
Total Recoverable Expenses		\$195,464	\$5.88
<b>NON-RECOVERABLE</b>			
Replacement Reserves		\$4,990	\$0.15
Legal/Accounting		\$1,663	\$0.05
Total Recoverable Expenses		\$6,654	\$0.20
<b>TOTAL EXPENSES</b>		\$202,118	\$6.08
<b>NET OPERATING INCOME</b>		\$461,599	\$13.87
<b>AS-IS MARKET VALUE</b>			
NOI capitalized at:	7.50%	\$6,154,653	\$185
	8.00%	\$5,769,987	\$173
<b>RECONCILED VALUE</b>	7.69%	\$6,000,000	\$180
<b>(Rounded)</b>			

**Income Approach**      Applying these capitalization rates results in the following market values:  
**Value Conclusion**

7.50%	=	\$6,154,653
8.00%	=	\$5,769,987

We correlate this to a stabilized market value toward the middle of the range at \$6,000,000.

**Lease-Up Costs**      Since the subject is currently unoccupied and in poor condition, we included potential lease up costs that an investor would incorporate into their analysis.

**Lease Up Costs**

<b>RECONCILED AS-IS VALUE</b>		\$6,000,000
Total Rentable Area		33,269 Sq Ft
Stabilized Occupancy	95.0%	31,606 Sq Ft
Less leased Area	0.0%	0 Sq Ft
SF to be leased to reach Stabilized	95.0%	31,606 Sq Ft
<b>Deductions to complete absorption</b>		31,606 Sq Ft
Absorption Estimate - months		36.0
Straight-line Average downtime		18.0
Lost Rent at Market (\$/Sq Ft)	\$18	\$853,362
Lost Expense Reimbursement (\$/sf/mo)	\$0.08	\$47,409
Commissions (5% of 5 Year of Lease Term)		\$142,227
TI Allowance (\$/sf)	\$60.00	\$1,896,360
Subtotal		\$2,939,358
Entrepreneurial Profit	40%	\$1,175,743
Total Absorption Deductions (rounded)		\$4,120,000
<b>VALUE AFTER LEASE-UP COSTS (Rounded)</b>		\$1,900,000

**Income Approach**      Based on market trends, absorption is projected within 36 months for an  
**Conclusion After**      average downtime of 18 months. After deducting lost rent, TI allowances,  
**Lease-Up Costs**      lost expense reimbursements, commissions, and entrepreneurial profit,  
                                  the reconciled value determined from the Income Approach is \$1,900,000.

# Reconciliation & Final Value Opinion

## Reconciliation & Final Value Estimate

**Final Value Estimate** The approaches to value utilized in this report have indicated the following values for the subject property:

Cost Approach	N/A
Sale Comparison Approach	\$2,000,000
Income Capitalization Approach	\$1,900,000

The Income Capitalization Approach indicates a value slightly lower than the Sales Comparison Approach, although their values are marginally different and supportive of one another. Considering the subject's current condition and vacancy, it could be purchased by an owner-user or investor.

**VALUE CONCLUSION** Therefore, equal weight is given to these two approaches. Based on this analysis, the prospective market value of the leased fee interest in the subject, as of January 1, 2017, is concluded to:

\$1,950,000

# ADDENDUM

# Engagement Letter

September 27, 2016

Scott Switzer of  
Seahawk Portfolio LLC, Mariners Portfolio LLC, WA Portfolio LLC, and Olympia Office LLC  
10900 4<sup>th</sup> Ave., Suite 2300  
Bellevue, WA 98004

*Via e-mail - Scott@snsll.com*

RE: Engagement of Services – Nine Appraisal Reports

Dear Mr. Switzer:

We are pleased to have the opportunity to furnish appraisal services for the nine properties listed below:

- |   |   |
|---|---|
| #1) CD 1-02 FEMA<br>629 Woodland Square Loop, Lacey, WA   | #6) CDC1-15-DSHS<br>640 Woodland Square Loop, Lacey, WA     |
| #2) CDC1-13 Ins Comm<br>5000 Capital - Tumwater, WA       | #7) CDC1-18 DSHS<br>805 S. Mission St., Wenatchee, WA       |
| #3) CDC1 -03 DOC<br>637 Woodland Square Loop, Lacey, WA   | #8) CDC1-16 DSHS<br>1620 Pioneer Way, Moses Lake, WA        |
| #4) CDC 1 - 04 DOL<br>645 Woodland Square Loop, Lacey, WA | #9) CDC1-11 West Seattle<br>8830 25th Ave., SW, Seattle, WA |
| #5) CDC-1-14 Gambling Comm<br>4565 7th Ave. SE, Lacey, WA |   |

The purpose of this letter is to confirm the scope of our services for this engagement, our office practices and policies.

We will prepare the appraisals report using an appraisal process in accordance with the appraisal reporting standards of the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation. It will contain the descriptions, comparative data, analyses, conclusions and exhibits generally considered essential to a documented appraisal report. In addition, our services will comply with and be subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. The intended user of these appraisals is the client. The intended use of these appraisals is for internal purposes of valuing the properties.

The cost of the nine appraisals will be \$ . This fee is based on the scope and timing of our analysis as outlined in this letter. If the scope of analysis changes during the appraisal process, the change could alter the cost. At the stated fee you will receive an electronic copy of the report in PDF format. You may request up to two optional hard copies without additional charge by checking the box by the signature block. Additional hard copies will be available at nominal expense (billed at \$75/hour for administrative staff's time), but it is helpful if we know of your copy requirements at the time we begin work on the project. It is our custom to accept a 50 percent retainer at the time we are authorized to proceed. Payment for our services is due no later than 30 days following delivery of the completed reports. Any past-due accounts bear interest at the rate of 18 percent per year.

Scott Switzer of  
September 27, 2016  
Page 2

Appraisal values will be reported on October 20<sup>th</sup>, 2016 and we anticipate delivery of the reports will be made within six weeks from the date we receive from you a signed copy of this engagement letter authorizing us to proceed.

We do not anticipate that any disputes will arise out of our relationship with you. However, if any dispute should arise about our services or fees or any other aspect of our relationship, we and you agree to seek a fair negotiated resolution. If this is not successful, all disputes shall be resolved by binding arbitration in Seattle under the American Arbitration Association ("AAA") Commercial Arbitration Rules with Expedited Procedures in effect on the date hereof. The arbitrator may award attorneys' fees and costs to the prevailing party.

If you agree with these terms of engagement and wish us to proceed, please sign where indicated below and return the letter together with your check for \$ \_\_\_\_\_ representing the retainer.

Very truly yours,

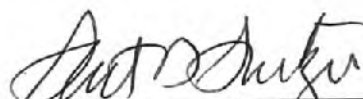
KIDDER MATHEWS



David M. Chudzik, Ph.D., MAI  
Vice President

Check if two hard copy reports are required: ☐

ACCEPTED & AGREED this 27<sup>th</sup> day of September, 2016:

  
Authorized agent for the LLC's

092716 Scott Switzer /sh

# Title Report



## COMMITMENT FOR TITLE INSURANCE

Issued by

### ***FIRST AMERICAN TITLE INSURANCE COMPANY***

First American Title Insurance Company, herein called the Company, for valuable consideration, hereby commits to issue its policy or policies of title insurance, as identified in Schedule A, in favor of the proposed Insured named in Schedule A, as owner or mortgagor of the estate or interest covered hereby in the land described or referred to in Schedule A, upon payment of the premiums and charges therefor; all subject to the provisions of Schedules A and B and to the Conditions and Stipulations hereof.

This Commitment shall be effective only when the identity of the proposed Insured and the amount of the policy or policies committed for have been inserted in Schedule A hereof by the Company, either at the time of the issuance of the Commitment or by subsequent endorsement.

This Commitment if preliminary to the issuance of such policy or policies of title insurance and all liability and obligations hereunder shall cease and terminate six (6) months after the effective date hereof or when the policy or policies committed for shall issue, whichever first occurs, provided that the failure to issue such policy or policies is not the fault of the Company. This Commitment shall not be valid or binding until countersigned by an authorized officer or agent.

IN WITNESS WHEREOF, the Company has caused this commitment to be signed, to become valid when countersigned by an authorized officer or agent of the Company, all in accordance with its By-Laws. This Commitment is effective as of the date shown in Schedule A as "Effective Date."

### ***First American Title Insurance Company***

Dennis J. Gilmore  
President

Jeffrey S. Robinson  
Secretary



***First American Title Insurance Company  
National Commercial Services***

818 Stewart Street, Suite 800, Seattle, WA 98101  
(206)728-0400 - (800)526-7544 FAX (206)448-6348

Lavonne Bowman  
(206)615-3269  
lavbowman@firstam.com

Jessica Bowerman  
(206)615-3049  
jbowerman@firstam.com

To: **Philips International**  
**295 Madison Avenue**  
**New York, NY 10017**

File No.: **NCS-811748-WA1**  
Your Ref No.: **Thurston Co**

Attn: **Robyn Tuerk, Esq.**

**SCHEDULE A**

1. Commitment Date: September 02, 2016 at 7:30 A.M.
2. Policy or Policies to be issued:

	AMOUNT	PREMIUM	TAX
ALTA Standard Owner Policy	\$ To follow	\$	\$

Proposed Insured:  
To follow

3. The estate or interest in the land described on Page 2 herein is **Fee Simple**, and title thereto is at the effective date hereof vested in:  
  
645 Woodland, LLC, a Washington limited liability company as to Lot 10 of Parcel A and CDC Properties I, L.L.C., a Delaware limited liability company as to the remainder
4. The land referred to in this Commitment is described as follows:

The land referred to in this report is described in Exhibit "A" attached hereto.

## EXHIBIT 'A'

### LEGAL DESCRIPTION:

#### PARCEL A:

LOTS 10 AND 11 WOODLAND SQUARE, AS PER PLAT RECORDED IN [VOLUME 20 OF PLATS, PAGES 103](#) AND 104, RECORDS OF THURSTON COUNTY, WASHINGTON.

#### PARCEL B:

PARCELS A AND B OF BOUNDARY LINE ADJUSTMENT NO. SS-BLA-6144 RECORDED UNDER RECORDING NO. [8709180126](#), RECORDS OF THURSTON COUNTY, WASHINGTON.

(BEING LOTS 12, 13 AND 14 WOODLAND SQUARE, AS PER PLAT RECORDED IN [VOLUME 20 OF PLATS, PAGES 103](#) AND 104, RECORDS OF THURSTON COUNTY, WASHINGTON)

#### PARCEL C:

PARCEL A OF BOUNDARY LINE ADJUSTMENT NO. BLA-6196 RECORDED UNDER RECORDING NO. [9010160091](#), RECORDS OF THURSTON COUNTY, WASHINGTON.

(BEING LOTS 31 THROUGH 34 WOODLAND SQUARE, AS PER PLAT RECORDED IN [VOLUME 20 OF PLATS, PAGES 103](#) AND 104, RECORDS OF THURSTON COUNTY, WASHINGTON)

#### PARCEL D:

LOTS 35 AND 36 OF WOODLAND SQUARE, AS PER PLAT RECORDED IN [VOLUME 20 OF PLATS, PAGES 103](#) AND 104, RECORDS OF THURSTON COUNTY, WASHINGTON.

#### PARCEL E:

LOTS 1 THROUGH 6 INCLUSIVE AND LOTS 9 THROUGH 16 INCLUSIVE, ALL IN TROSPER ADDITION TO TUMWATER, AS PER PLAT RECORDED IN [VOLUME 11 OF PLATS, PAGE 107](#), RECORDS OF THURSTON COUNTY, WASHINGTON;

EXCEPT THE SOUTH 18 FEET OF SAID LOT 6;

AND ALSO EXCEPT THOSE PORTIONS OF LOTS 1 AND 16 OF SAID PLAT CONVEYED TO THE CITY OF TUMWATER FOR STREET PURPOSES BY DEEDS RECORDED UNDER RECORDING NOS. 912527 AND 926019;

TOGETHER WITH THOSE PORTIONS OF VACATED MARKET STREET ABUTTING AND ADJOINING SAID LOTS VACATED BY ORDINANCE 515, RECORDED UNDER RECORDING NO. 775791, WHICH UPON VACATION REVERTED TO SAID PREMISES BY OPERATION OF LAW.

**SCHEDULE B - SECTION 1**  
**REQUIREMENTS**

The following are the Requirements to be complied with:

- Item (A) Payment to or for the account of the Grantors or Mortgagors of the full consideration for the estate or interest to be insured.
- Item (B) Proper instrument(s) creating the estate or interest to be insured must be executed and duly filed for record.
- Item (C) Pay us the premiums, fees and charges for the policy.
- Item (D) You must tell us in writing the name of anyone not referred to in this Commitment who will get an interest in the land or who will make a loan on the land. We may then make additional requirements or exceptions

**SCHEDULE B - SECTION 2**  
**GENERAL EXCEPTIONS**

The Policy or Policies to be issued will contain Exceptions to the following unless the same are disposed of to the satisfaction of the Company.

- A. Taxes or assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records.
- B. Any facts, rights, interest, or claims which are not shown by the public records but which could be ascertained by an inspection of said land or by making inquiry of person in possession thereof.
- C. Easements, claims of easement or encumbrances which are not shown by the public records.
- D. Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by public records.
- E. (1) Unpatented mining claims; (2) reservations or exceptions in patents or in acts authorizing the issuance thereof; (3) Water rights, claims or title to water; whether or not the matters excepted under (1), (2) or (3) are shown by the public records; (4) Indian Tribal Codes or Regulations, Indian Treaty or Aboriginal Rights, including easements or equitable servitudes.
- F. Any lien, or right to a lien, for services, labor, materials or medical assistance heretofore or hereafter furnished, imposed by law and not shown by the public records.
- G. Any service, installation, connection, maintenance, construction, tap or reimbursement charges/costs for sewer, water, garbage or electricity.
- H. Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in the public records or attaching subsequent to the effective date hereof but prior to the date the proposed insured acquires of record for value the estate or interest or mortgages thereon covered by this Commitment.

**SCHEDULE B - SECTION 2  
(continued)  
SPECIAL EXCEPTIONS**

1. Lien of the Real Estate Excise Sales Tax and Surcharge upon any sale of said premises, if unpaid. As of the date herein, the excise tax rate for the **City of Tumwater (Parcel E) and Lacey (the remainder)** is at **1.78%**.  
Levy/Area Code: 440 and 241

**For all transactions recorded on or after July 1, 2005:**

- A fee of \$10.00 will be charged on all exempt transactions;
- A fee of \$5.00 will be charged on all taxable transactions in addition to the excise tax due.

2. Matters of extended owner/purchaser coverage which are dependent upon an inspection and an ALTA survey of the property for determination of insurability.

Please submit a copy of the ALTA Survey at your earliest convenience for review. Our inspection will be held pending our review of the ALTA Survey and the result of said inspection will be furnished by supplemental report.

3. Evidence of the authority of the individual(s) to execute the forthcoming document for 645 Woodland, LLC, a Washington limited liability company, copies of the current operating agreement should be submitted prior to closing.
4. Evidence of the authority of the individual(s) to execute the forthcoming document for CDC Properties I, L.L.C., a Delaware limited liability company, copies of the current operating agreement should be submitted prior to closing.
5. Title to vest in an incoming owner whose name is not disclosed. Such name must be furnished to us so that a name search may be made.
6. Unrecorded leaseholds, if any, rights of vendors and security agreement on personal property and rights of tenants, and secured parties to remove trade fixtures at the expiration of the term.
7. Prior to issuance of an extended coverage policy, the Company will require an Owner's Affidavit be completed and submitted to the Company for approval prior to closing. The Company reserves the right to make any additional requirement as warranted.

**The Following Matters Affect Parcel A:**

8. General Taxes for the year 2016.

Tax Account No.:	8499-00-01000
Amount Billed:	\$ 8,719.98
Amount Paid:	\$ 4,359.99
Amount Due:	\$ 4,359.99
Assessed Land Value:	\$ 262,400.00
Assessed Improvement Value:	\$ 426,900.00

(Affects Lot 10)

9. General Taxes for the year 2016.

Tax Account No.:	8499-00-01100
Amount Billed:	\$ 3,749.42
Amount Paid:	\$ 1,874.71
Amount Due:	\$ 1,874.71
Assessed Land Value:	\$ 262,350.00
Assessed Improvement Value:	\$ 33,600.00

(Affects Lot 11)

10. City liens, if any, for the City of Lacey.

Note: An inquiry has NOT been made concerning the actual status of such liens.

11. Easement, including terms and provisions contained therein:

Recording Information:	December 6, 1971 under Recording No. <a href="#">856136</a>
In Favor of:	National Guaranty Properties, Inc., a Washington corporation
For:	Utilities
Affects:	as described therein

12. Restrictions, conditions, dedications, notes, easements and provisions, if any, as contained and/or delineated on the face of the plat of Woodland Square recorded in [Volume 20 of Plats, Pages 103](#) and 104, in Thurston County, Washington.

The easements as reserved on the face of said plat were partially released by documents recorded February 25, 2003 under Recording No. [3506502](#).

13. Easement, including terms and provisions contained therein:

Recording Information:	September 3, 1985 under Recording No. <a href="#">8509030026</a>
In Favor of:	Puget Sound Power & Light Company
For:	Electric transmission and/or distribution system
Affects:	as described therein

14. Easement, including terms and provisions contained therein:

Recording Information:	September 10, 1987 under Recording No. <a href="#">8709100109</a>
In Favor of:	Washington Natural Gas Company
For:	Gas pipe lines
Affects:	as described therein

15. Deed of Trust and the terms and conditions thereof.

Grantor/Trustor:	CDC Properties I LLC
Grantee/Beneficiary:	Merrill Lynch Mortgage Lending, Inc., and their respective successors and assigns
Trustee:	First American Title Company
Amount:	\$43,257,500.00
Recorded:	October 1, 2004
Recording Information:	<a href="#">3677846</a> , <a href="#">3677847</a> , <a href="#">3677848</a> and <a href="#">3677849</a>

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788501](#), [3788502](#), [3788503](#), [3788504](#), [3788505](#) and [3788506](#) of Official Records.

Document(s) declaring modifications thereof recorded November 29, 2012 as [4303262](#) of Official Records.

A document recorded March 9, 2016 as [4490575](#) of Official Records provides that Rainier Foreclosure Services Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509671](#) of Official Records.

16. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc., and their respective successors and assigns  
Recorded: October 1, 2004  
Recording Information: [3677850](#) and [3677851](#)

According to the public records, the beneficial interest under the assignment of leases was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788501](#), [3788502](#), [3788503](#), [3788504](#), [3788505](#) and [3788506](#) of Official Records.

(Affects Lot 11)

17. A financing statement recorded October 6, 2004 as Recording No. [3679094](#) of Official Records.  
Debtor: CDC Properties I LLC  
Secured party: Merrill Lynch Mortgage Lending, Inc.

According to the public records, the security interest of the secured party was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by document recorded November 29, 2005 as Recording No. [3788517](#) of Official Records.

An amendment to the financing statement was recorded October 7, 2014 as [4412200](#) of Official Records.

(Affects Lot 11)

18. A lease dated February 25, 2008, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Department of Licensing as lessee, for a term of 5 years recorded April 2, 2008 as [4000163](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lots 10 and 11)

19. A lease dated January 28, 2009, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Department of Corrections as lessee, for a term of 5 years recorded February 26, 2009 as [4062838](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lot 11 and other property)

20. A lease dated July 20, 2012, executed by 645 Woodland, LLC, a Washington limited liability company as lessor and State of Washington, Department of Licensing as lessee, for a term of 5 years recorded October 30, [2012 as 4297374](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lot 10)

21. A lease dated July 20, 2012, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Department of Licensing as lessee, for a term of 5 years recorded October 30, 2012 as [4297375](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lot 11)

22. A lease dated April 4, 2014, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Department of Corrections as lessee, for a term of 5 years recorded September [2, 2014 as 4407084](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lot 11 and other property)

**The Following Matters Affect Parcel B:**

23. General Taxes for the year 2016.

Tax Account No.:	8499-00-01400
Amount Billed:	\$ 35,805.83
Amount Paid:	\$ 17,902.91
Amount Due:	\$ 17,902.92
Assessed Land Value:	\$ 383,550.00
Assessed Improvement Value:	\$ 2,449,200.00

(Affects Parcel A)

24. General Taxes for the year 2016.

Tax Account No.:	8499-00-01200
Amount Billed:	\$ 21,094.97
Amount Paid:	\$ 10,547.48
Amount Due:	\$ 10,547.49
Assessed Land Value:	\$ 321,700.00
Assessed Improvement Value:	\$ 1,346,900.00

(Affects Parcel B)

25. City liens, if any, for the City of Lacey.

Note: An inquiry has NOT been made concerning the actual status of such liens.

26. Restrictions, conditions, dedications, notes, easements and provisions, if any, as contained and/or delineated on the face of the plat of Woodland Square recorded in [Volume 20 of Plats, Pages 103](#) and 104, in Thurston County, Washington.

The easements as reserved on the face of said plat were partially released by documents recorded February 25, 2003 under Recording No. [3506502](#).

27. Easement, including terms and provisions contained therein:

Recording Information:	September 3, 1985 under Recording No. <a href="#">8509030026</a>
In Favor of:	Puget Sound Power & Light Company
For:	Electric transmission and/or distribution system
Affects:	as described therein

28. Easement, including terms and provisions contained therein:

Recording Information:	August 18, 1987 under Recording No. <a href="#">8708180149</a>
In Favor of:	Puget Sound Power & Light Company
For:	Electric transmission and/or distribution system
Affects:	as described therein

29. Easement, including terms and provisions contained therein:  
Recording Information: September 10, 1987 under Recording No. [8709100109](#)  
In Favor of: Washington Natural Gas Company  
For: Gas pipe lines  
Affects: Exterior 7 feet of all lots abutting street frontage
30. Terms, covenants, conditions and restrictions as contained in recorded Lot Line Adjustment (Boundary Line Revision) SS-BLA-6144 :  
Recorded: September 18, 1987  
Recording Information: [8709180126](#)
31. The terms and provisions contained in the document entitled Agreement and Waiver of Protest, executed by and between Rainier General, Inc., and City of Lacey, recorded March 30, 1988 as Instrument No. [8803300035](#) of Official Records.
32. Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: CDC Properties I LLC, a Delaware limited liability company  
Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc., and their respective successors and assigns  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677834](#), [3677835](#), [3677836](#) and [3677837](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the registered holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788483](#), [3788484](#), [3788485](#), [3788486](#), [3788487](#) and [3788488](#) of Official Records.

A document recorded March 9, 2016 as [4490577](#) of Official Records provides that Rainier Foreclosure Services, Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509651](#) of Official Records.

(Affects Parcel A)

33. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677838](#) and [3677839](#)
- Assignment of Assignment of Leases and Rents:  
Assignor: Merrill Lynch Mortgage Lending, Inc., a Delaware corporation  
Assignee: Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1  
Recorded: November 29, 2005

Recording Nos.: [3788483, 3788484, 3788485, 3788486, 3788487 and 3788488](#)

(Affects Parcel A)

34. Deed of Trust and the terms and conditions thereof.

Grantor/Trustor: CDC Properties I LLC, a Delaware limited liability company  
Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc., and their respective successors and assigns  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677840, 3677841, 3677842 and 3677843](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788489, 3788490, 3788491, 3788492, 3788493 and 3788494](#) of Official Records.

A document recorded March 9, 2016 as [4490573](#) of Official Records provides that Rainier Foreclosure Services, Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509650](#) of Official Records.

(Affects Parcel B)

35. Assignment of leases and/or rents and the terms and conditions thereof:

Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677844 and 3677845](#)

Assignment of Assignment of Leases and Rents:

Assignor: Merrill Lynch Mortgage Lending, Inc., a Delaware corporation  
Assignee: Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1  
Recorded: November 29, 2005  
Recording Nos.: [3788489, 3788490, 3788491, 3788492, 3788493 and 3788494](#)

(Affects Parcel B)

36. A document entitled "Perpetual Reciprocal Easement, Mutual Maintenance Agreement and Covenant Running with the Land", executed by and between CDC Properties II LLC, a Delaware limited liability company and Blake Office Park LLC, a Washington limited liability company recorded April 14, 2008, as Instrument No. [4002859, 4002860 and 4002861](#) of Official Records.

(Affects Parcel A)

37. A lease dated January 28, 2009, executed by CDC Properties I LLC, a Delaware limited liability company as lessor and State of Washington, Department of Corrections as lessee, for a term of 5 years recorded February 26, 2006 as [4062838](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects said premises and other property)

38. A lease dated August 9, 2011, executed by CDC Properties I LLC, a Delaware limited liability company as lessor and State of Washington, Employment Security Department as lessee, for a term of 5 years recorded August 26, 2011 as [4225692](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

39. A lease dated April 4, 2014, executed by CDC Properties I LLC, a Delaware limited liability company as lessor and State of Washington, Department of Corrections as lessee, for a term of 5 years recorded September 2, 2014 as [4407084](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects said premises and other property)

**The Following Matters Affect Parcel C:**

40. General Taxes for the year 2016.

Tax Account No.:	8499-00-03100
Amount Billed:	\$ 76,519.23
Amount Paid:	\$ 38,259.61
Amount Due:	\$ 38,259.62
Assessed Land Value:	\$ 342,150.00
Assessed Improvement Value:	\$ 5,712,500.00

(Affects Lot 31)

41. General Taxes for the year 2016.

Tax Account No.:	8499-00-03200
Amount Billed:	\$ 5,205.21
Amount Paid:	\$ 2,602.60
Amount Due:	\$ 2,602.61
Assessed Land Value:	\$ 342,150.00
Assessed Improvement Value:	\$ 69,000.00

(Affects Lot 32)

42. General Taxes for the year 2016.

Tax Account No.:	8499-00-03300
Amount Billed:	\$ 5,568.50
Amount Paid:	\$ 2,784.25
Amount Due:	\$ 2,784.25
Assessed Land Value:	\$ 373,000.00
Assessed Improvement Value:	\$ 66,900.00

(Affects Lot 33)

43. General Taxes for the year 2016.

Tax Account No.:	8499-00-03400
Amount Billed:	\$ 5,425.71
Amount Paid:	\$ 2,712.85
Amount Due:	\$ 2,712.86
Assessed Land Value:	\$ 373,000.00
Assessed Improvement Value:	\$ 55,600.00

(Affects Lot 34)

44. City liens, if any, for the City of Lacey.

Note: An inquiry has NOT been made concerning the actual status of such liens.

45. Restrictions, conditions, dedications, notes, easements and provisions, if any, as contained and/or delineated on the face of the plat of Woodland Square recorded in [Volume 20 of Plats, Pages 103](#) and 104, in Thurston County, Washington.

The easements as reserved on the face of said Plat were partially released by documents recorded February 25, 2003 under Recording No. [3506502](#).

46. Easement, including terms and provisions contained therein:  
Recording Information: September 3, 1985 under Recording No. [8509030026](#)  
In Favor of: Puget Sound Power & Light Company  
For: Electric transmission and/or distribution system  
Affects: as described therein
47. Easement, including terms and provisions contained therein:  
Recording Information: September 10, 1987 under Recording No. [8709100109](#)  
In Favor of: Washington Natural Gas Company  
For: Gas pipe lines  
Affects: as described therein
48. Terms, covenants, conditions and restrictions as contained in recorded Lot Line Adjustment (Boundary Line Revision) BLA No. BLA - 6196 :  
Recorded: October 16, 1990  
Recording Information: [9010160091](#)
49. Easement, including terms and provisions contained therein:  
Recording Information: June 17, 1999 under Recording No. [3237665](#)  
In Favor of: City of Lacey  
For: Utilities  
Affects: as described therein
50. A lease dated April 30, 2001, executed by Capital Development Company as lessor and State of Washington, Gambling Commission as lessee, for a term of 10 years recorded June 6, 2001 as Recording No. [3357438](#) of Official Records.
- Said lease, among other things provides for an option to renew for a period of 1 additional five year term.
- Document(s) declaring modifications thereof recorded as [3515647](#), [3695550](#), [3702397](#) and [3745306](#) of Official Records.
51. Easement, including terms and provisions contained therein:  
Recording Information: August 17, 2001 under Recording No. [3373010](#)  
In Favor of: City of Lacey  
For: Utilities  
Affects: as described therein
52. Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: CDC Properties I LLC, a Delaware limited liability company

Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc.  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677822, 3677823, 3677824 and 3677825](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005- MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788495, 3788496, 3788497, 3788498, 3788499 and 3788500](#) of Official Records.

A document recorded March 9, 2016 as [4490578](#) of Official Records provides that Rainier Foreclosure Services Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509652](#) of Official Records.

53. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC., a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677826 and 3677827](#)

Assignment of Assignment of Leases and Rents and Security Deposits:  
Assignor: Merrill Lynch Mortgage Lending, Inc.  
Assignee: Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005- MCP1  
Recording Date: November 29, 2005  
Recording Nos: [3788495, 3788496, 3788497, 3788498, 3788499 and 3788500](#)

54. Subordination, non-disturbance and attornment agreements:  
Between Merrill Lynch Mortgage Lending, Inc.  
And CDC Properties I, LLC  
Recorded February 16, 2005  
Recording Nos.: [3709712 and 3709713](#)

55. A lease dated November 30, 2005, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Department of Services for the Blind, acting through the Department of General Administration as lessee, for a term of 5 years, 7 months recorded March 8, 2006 as Recording No. [3813420](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

56. A lease dated November 30, 2005, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Department of Social and Health Services, acting through the Department of General Administration as lessee, for a term of 5 years & 7 months recorded March 8, 2006 as Recording No. [3813421](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

57. A lease dated August 18, 2006, executed by CDC Properties I, LLC and CDC Properties II, LLC., a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Department of Early Learning, acting through the Department of General Administration as lessee, for a term of 5 years recorded September 6, 2006 as Recording No. [3862862](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

58. A lease dated August 18, 2006, executed by CDC Properties I, LLC and CDC Properties II, LLC as lessor and State of Washington Department of Early Learning as lessee, for a term of 5 years recorded September 20, 2006 as [3866708](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises and other property)

Document(s) declaring modifications thereof recorded September 13, 2007 as [3957547](#) of Official Records.

59. A lease dated October 6, 2006, executed by CDC Properties I, LLC., a Delaware limited liability company, its heirs, executors, administrators, successors, and assigns as lessor and The State of Washington, Department of Revenue, acting through the Department of General Administration as lessee, for a term of 5 years recorded January 8, 2007 as Recording No. [3893390](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

60. A lease dated March 28, 2007, executed by CDC Properties I, LLC and CDC Properties II, LLC., its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Department of Social and Health Services, acting through the Department of General Administration as lessee, for a term of 5 years recorded April 26, 2007 as Recording No. [3921776](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

61. A lease dated July 20, 2007, executed by CDC Properties I, L.L.C., a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953398](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

62. A lease dated July 20, 2007, executed by CDC Properties I, L.L.C., a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953399](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

63. A lease dated July 20, 2007, executed by CDC Properties I, L.L.C., a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953400](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

64. A lease dated July 19, 2007, executed by CDC Properties I, LLC, a Delaware limited liability company and CDC Properties II, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Health Care Authority, acting through the Department of General Administration as lessee, for a term of 5 years recorded September 18, 2007 as Recording No. [3958584](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

Document(s) declaring modifications thereof recorded March 3, 2009 as [4064210](#) of Official Records.

65. A lease dated March 10, 2009, executed by State of Washington, Health Care Authority as lessor and State of Washington, Employment Security Department as lessee, for a term of 3 years recorded April 23, 2009 as [4076435](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises and other property)

66. A lease dated May 21, 2009, executed by CDC Properties I, LLC as lessor and State of Washington, Sentencing Guidelines Commission as lessee, for a term of 5 years recorded June 18, 2009 as [4091170](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises)

67. A lease dated June 9, 2010, executed by CDC Properties I, LLC as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 5 years recorded July 20, 2010 as [4160983](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises and other property)

Document(s) declaring modifications thereof recorded April 18, 2011 as [4206949](#) of Official Records.

68. A lease dated August 9, 2011, executed by CDC Properties I, LLC as lessor and State of Washington, Employment Security Department as lessee, for a term of 5 years recorded August 26, 2011 as [4225692](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises and other property)

69. A lease dated December 13, 2011, executed by CDC Properties I, LLC as lessor and State of Washington, Department of Services for the Blind as lessee, for a term of 5 years recorded May 29, 2012 as [4268098](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises)

70. A lease dated March 2, 2012, executed by CDC Properties I, LLC as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 5 years recorded May 29, 2012 as [4268100](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises)

71. A lease dated June 4, 2014, executed by CDC Properties I, LLC as lessor and State of Washington, Department of Services for the Blind as lessee, for a term of 5 years recorded August 11, 2014 as [4404014](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises)

72. A lease dated September 16, 2014, executed by State of Washington, Employment Security Department as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 2 years recorded November 19, 2014 as [4417955](#) of Official Records.

(Affects a portion of said premises and other property)

**The Following Matters Affect Parcel D:**

73. General Taxes for the year 2016.

Tax Account No.:	8499-00-03500
Amount Billed:	\$ 5,094.01
Amount Paid:	\$ 2,547.00
Amount Due:	\$ 2,547.01
Assessed Land Value:	\$ 342,150.00
Assessed Improvement Value:	\$ 60,200.00

(Affects Lot 35)

74. General Taxes for the year 2016.

Tax Account No.:	8499-00-03600
Amount Billed:	\$ 89,839.35
Amount Paid:	\$ 44,919.67
Amount Due:	\$ 44,919.68
Assessed Land Value:	\$ 342,150.00
Assessed Improvement Value:	\$ 6,766,600.00

(Affects Lot 36)

75. City liens, if any, for the City of Lacey.

Note: An inquiry has NOT been made concerning the actual status of such liens.

76. Restrictions, conditions, dedications, notes, easements and provisions, if any, as contained and/or delineated on the face of the plat of Woodland Square recorded in [Volume 20 of Plats, Pages 103](#) and 104, in Thurston County, Washington.

The easements as reserved on the face of said Plat were partially released by documents recorded February 25, 2003 under Recording No. [3506502](#).

77. Easement, including terms and provisions contained therein:

Recording Information:	September 3, 1985 under Recording No. <a href="#">8509030026</a>
In Favor of:	Puget Sound Power & Light Company, a Washington corporation
For:	Electric transmission and/or distribution system
Affects:	as described therein

78. Easement, including terms and provisions contained therein:

Recording Information:	September 10, 1987 under Recording No. <a href="#">8709100109</a>
In Favor of:	Washington Natural Gas Company, its successors and assigns
For:	Gas pipe lines
Affects:	as described therein

79. Easement, including terms and provisions contained therein:  
Recording Information: June 17, 1999 under Recording No. [3237665](#)  
In Favor of: City of Lacey, a municipal corporation  
For: Utilities  
Affects: as described therein
80. Easement, including terms and provisions contained therein:  
Recording Information: March 2, 2000 under Recording No. [3281842](#)  
In Favor of: Puget Sound Energy, Inc., a Washington corporation  
For: Transmission, distribution and sale of gas and electricity  
Affects: (Lot 36) as described therein
81. Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: CDC Properties I LLC  
Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc.  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677816, 3677817, 3677818 and 3677819](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788507, 3788508, 3788509, 3788510, 3788511 and 3788512](#) of Official Records.

A document recorded March 9, 2016 as [4490574](#) of Official Records provides that Rainier Foreclosure Services Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509649](#) of Official Records.

82. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677820 and 3677821](#)

Assignment of Assignment of Leases and/or Rents:

Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1  
Recorded: November 29, 2005  
Recording Nos.: [3788507, 3788508, 3788509, 3788510, 3788511 and 3788512](#)

83. A lease dated July 20, 2007, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors, and assigns as lessor and State of Washington, Employment Security Department, acting through the Department of General

Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953398](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of an additional term of 5 years.

Affects: The land and other property.

84. A lease dated July 20, 2007, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors, and assigns as lessor and State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953399](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of an additional term of 5 years.

Affects: The land and other property.

85. A lease dated July 20, 2007, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors, and assigns as lessor and State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953400](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of an additional term of 5 years.

Affects: The land and other property.

86. A lease dated June 9, 2010, executed by CDC Properties I, LLC and CDC Properties II, LLC as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 5 years recorded July 20, 2010 as [4160983](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

Affects: The land and other property.

Document(s) declaring modifications thereof recorded April 18, 2011 as [4206949](#) of Official Records.

87. A lease dated August 9, 2011, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Employment Security Department as lessee, for a term of 5 years recorded August 26, 2011 as [4225692](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

Affects: The land and other property.

88. A lease dated September 16, 2014, executed by State of Washington, Employment Security Department as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 2 years recorded November 19, 2014 as [4417955](#) of Official Records.

Affects: The land and other property.

**The Following Matters Affect Parcel E:**

89. General Taxes for the year 2016.  
Tax Account No.: 8040-00-00100  
Amount Billed: \$ 95,406.23  
Amount Paid: \$ 47,703.11  
Amount Due: \$ 47,703.12  
Assessed Land Value: \$ 955,950.00  
Assessed Improvement Value: \$ 6,086,200.00
90. City liens, if any, for the city of Lacey.  
Note: An inquiry has NOT been made concerning the actual status of such liens.
91. Easement, including terms and provisions contained therein:  
Recording Information: [592302](#)  
In Favor of: Puget Sound Power & Light Company  
For: Electric transmission and/or distribution system  
Affects: as described therein
92. Easement, including terms and provisions contained therein:  
Recording Information: [679183](#)  
In Favor of: Puget Sound Power & Light Company  
For: Electric transmission and/or distribution system  
Affects: as described therein
93. The terms, provisions and easement(s) contained in the document entitled "Easement Agreement" recorded March 21, 1986 as Recording No. [8603210099](#) of Official Records.
94. A lease dated January 15, 2002, executed by Capital Development Company, for its heirs, executors, administrators, successors, and assigns as lessor and The State of Washington Office of the Insurance Commissioner, acting through the Department of General Administration as lessee, for a term of 12 years recorded February 27, 2002 as Recording No. [3415237](#) of Official Records.  
  
Said lease, among other things provides for an option to renew for a period of an additional 5 years.  
  
Document(s) declaring modifications thereof recorded October 14, 2002 and February 17, 2005 as [3468958](#) and [3709860](#) of Official Records.
95. Easement, including terms and provisions contained therein:  
Recording Information: May 21, 2002 under Recording No. [3435511](#)  
In Favor of: City of Tumwater  
For: Water main  
Affects: 15 foot wide strips

96. Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: CDC Properties I LLC  
Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc.  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677828, 3677829, 3677830 and 3677831](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the registered holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass- Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788477, 3788478, 3788479, 3788480, 3788481 and 3788482](#) of Official Records.

A document recorded March 9, 2016 as [4490576](#) of Official Records provides that Rainier Foreclosure Services Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509645](#) of Official Records.

97. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677832 and 3677833](#)

Assignment of Assignment of Leases and Rents:

Assignor: Merrill Lynch Mortgage Lending, Inc.  
Assignee: Wells Fargo Bank, N.A., as Trustee for the registered holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1  
Recording Nos: [3788477, 3788478, 3788479, 3788480, 3788481 and 3788482](#)  
Recording Date: November 29, 2005

98. Subordination, non-disturbance and attornment agreements:  
Between Merrill Lynch Mortgage Lending, Inc.  
And CDC Properties I, LLC  
Recorded February 16, 2005  
Recording Nos.: [3709708 and 3709709](#)

99. A lease dated April 5, 2012, executed by CDC Properties I LLC, a Delaware limited liability company as lessor and The State of Washington Office of the Insurance Commissioner, acting through the Department of Enterprise services as lessee, for a term of 5 years recorded may 29, 2012 as [4268097](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year period.

<b>INFORMATIONAL NOTES</b>
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- A. Effective January 1, 1997, and pursuant to amendment of Washington State Statutes relating to standardization of recorded documents, the following format and content requirements must be met. Failure to comply may result in rejection of the document by the recorder.
- B. Any sketch attached hereto is done so as a courtesy only and is not part of any title commitment or policy. It is furnished solely for the purpose of assisting in locating the premises and First American expressly disclaims any liability which may result from reliance made upon it.
- C. The description can be abbreviated as suggested below if necessary to meet standardization requirements. The full text of the description must appear in the document(s) to be insured.
- Lots 10-14, 31-36, Woodland Square, [Vol. 20, P. 103](#) & 104  
Parcels A-B BLA No. SS-BLA-6144, Rec. [8709180126](#)  
Parcel A, BLA No. BLA - 6196, Rec. [9010160091](#)  
Ptn Lots 1-6 & 9-16, Trosper Add., [Vol. 11, P. 107](#)
- D. A fee will be charged upon the cancellation of this Commitment pursuant to the Washington State Insurance Code and the filed Rate Schedule of the Company.

**END OF SCHEDULE B**



***First American Title Insurance Company***  
***National Commercial Services***

**COMMITMENT**  
**Conditions and Stipulations**

1. The term "mortgage" when used herein shall include deed of trust, trust deed, or other security instrument.
2. If the proposed Insured has or acquires actual knowledge of a defect, lien, encumbrance, adverse claim or other matter affecting the estate or interest or mortgage thereon covered by this Commitment, other than those shown in Schedule B hereof, and shall fail to disclose such knowledge to the Company in writing, the Company shall be relieved from liability for any loss or damage resulting from any act or reliance hereon to the extent the Company is prejudiced by failure to so disclose such knowledge. If the proposed Insured shall disclose such knowledge to the Company, or if the Company otherwise acquires actual knowledge of any such defect, lien, encumbrance, adverse claim or other matter, the Company at its option, may amend Schedule B of this Commitment accordingly, but such amendment shall not relieve the Company from liability previously incurred pursuant to paragraph 3 of these Conditions and Stipulations.
3. Liability of the Company under this Commitment shall be only to the named proposed Insured and such parties included under the definition of Insured in the form of Policy or Policies committed for, and only for actual loss incurred in reliance hereon in undertaking in good faith (a) to comply with the requirements hereof, or (b) to eliminate exceptions shown in Schedule B, or (c) to acquire or create the estate or interest or mortgage thereon covered by this Commitment. In no event shall such liability exceed the amount stated in Schedule A for the Policy or Policies committed for and such liability is subject to the Insuring provisions, exclusion from coverage, and the Conditions and Stipulations of the form of Policy or Policies committed for in favor of the proposed Insured which are hereby incorporated by references, and are made a part of this Commitment except as expressly modified herein.
4. Any claim of loss or damage, whether or not based on negligence, and which arises out of the status of the title to the estate or interest or the lien of the Insured mortgage covered hereby or any action asserting such claim, shall be restricted to the provisions and Conditions and Stipulations of this Commitment.

The First American Corporation  
***First American Title Insurance Company***  
***National Commercial Services***  
**PRIVACY POLICY**

**We Are Committed to Safeguarding Customer Information**

In order to better serve your needs now and in the future, we may ask you to provide us with certain information. We understand that you may be concerned about what we will do with such information particularly any personal or financial information. We agree that you have a right to know how we will utilize the personal information you provide to us. Therefore, together with our parent company, The First American Corporation, we have adopted this Privacy Policy to govern the use and handling of your personal information.

**Applicability**

This Privacy Policy governs our use of the information which you provide to us. It does not govern the manner in which we may use information we have obtained from any other source, such as information obtained from a public record or from another person or entity. First American has also adopted broader guidelines that govern our use of personal information regardless of its source. First American calls these guidelines its Fair Information Values, a copy of which can be found on our website at [www.firstam.com](http://www.firstam.com).

**Types of Information**

Depending upon which of our services you are utilizing, the types of nonpublic personal information that we may collect include:

- Information we receive from you on applications, forms and in other communications to us, whether in writing, in person, by telephone or any other means;
- Information about your transactions with us, our affiliated companies, or others; and
- Information we receive from a consumer reporting agency.

**Use of Information**

We request information from you for our own legitimate business purposes and not for the benefit of any nonaffiliated party. Therefore, we will not release your information to nonaffiliated parties except: (1) as necessary for us to provide the product or service you have requested of us; or (2) as permitted by law. We may, however, store such information indefinitely, including the period after which any customer relationship has ceased. Such information may be used for any internal purpose, such as quality control efforts or customer analysis. We may also provide all of the types of nonpublic personal information listed above to one or more of our affiliated companies. Such affiliated companies include financial service providers, such as title insurers, property and casualty insurers, and trust and investment advisory companies, or companies involved in real estate services, such as appraisal companies, home warranty companies, and escrow companies. Furthermore, we may also provide all the information we collect, as described above, to companies that perform marketing services on our behalf, on behalf of our affiliated companies, or to other financial institutions with whom we or our affiliated companies have joint marketing agreements.

**Former Customers**

Even if you are no longer our customer, our Privacy Policy will continue to apply to you.

**Confidentiality and Security**

We will use our best efforts to ensure that no unauthorized parties have access to any of your information. We restrict access to nonpublic personal information about you to those individuals and entities who need to know that information to provide products or services to you. We will use our best efforts to train and oversee our employees and agents to ensure that your information will be handled responsibly and in accordance with this Privacy Policy and First American's Fair Information Values. We currently maintain physical, electronic, and procedural safeguards that comply with federal regulations to guard your nonpublic personal information.

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# Improvement Schedule



# Receivership Letter

Date: July 21, 2016

To: David Bornheimer, Senior Vice President, Midland Loan Services as servicer for Plaintiff, Wells Fargo Bank N.A. as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1 Commercial Pass-Through Certificates, Series 2005-MCP1 Plaintiff, U.S. Bank, N.A., as Successor-Trustee to LaSalle Bank National Association, as Trustee for the benefit of the Certificate Holders of Commercial Mortgage Pass-Through Certificates, Series MCCMT 2004-C2 D  
Defendant, CDC Properties I, LLC  
And Interested Parties

From: Edward Velton, Receiver, JSH Properties, Inc.

Re: CDC Properties I, LLC, Cause No. 16-2-10797-4-KNT  
**Receiver's Monthly Report: June 2016**

Procedural Background:

On May 19, 2016, pursuant to the request by Wells Fargo Bank N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1 Commercial Pass-Through Certificates, Series 2005-MCP1 ("Wells Fargo") and U.S. Bank, N.A., as Successor-Trustee to LaSalle Bank National Association as Trustee for the Benefit of the Certificate Holders of Commercial Mortgage Pass-Through Certificates, Series MCCMT 2004-C2 ("U.S. Bank" and collectively with Wells Fargo, "Plaintiffs"), this Court entered an Order Appointing Custodial Receiver (Order), under which JSH Properties, Inc. (Receiver) was appointed custodial receiver to take charge of the assets relating to the properties:

- 1620 South Pioneer Way, Moses Lake, Washington 98837
- 805 S. Mission Street, Wenatchee, Washington 98801
- 629 Woodland Square Loop SE, Lacey, Washington 98503
- 637 Woodland Square Loop SE, Lacey, Washington 98503
- 640 Woodland Square Loop SE, Lacey, Washington 98503
- 645 Woodland Square Loop SE, Lacey, Washington 98503
- 4565 7<sup>th</sup> Avenue South, Lacey, Washington 98503
- 5000 Capitol Boulevard, Tumwater, Washington 98502
- 8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106

Receivership commenced on May 19, 2016. In accordance with Paragraph 3.4.2 of Order, Receiver submits the following report for May 2016.

Receivership Property:

The Properties over which Receiver has been appointed are as follows:

- 1620 South Pioneer Way, Moses Lake, Washington 98837  
Type: Office  
Tenant: Vacant  
Occupied: 0%
- 805 S. Mission Street, Wenatchee, Washington 98801  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Social Health Services)  
Occupied: 100%
- 629 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: Vacant  
Occupied: 0%
- 637 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Corrections)  
Occupied: 100%
- 640 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: 1 Tenant (State of Washington, Employment Security Department)  
Occupied: 96.6%
- 645 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Licensing)  
Occupied: 100%
- 4565 7<sup>th</sup> Avenue South, Lacey, Washington 98503  
Type: Office  
Tenant: 3 Tenant (State of Washington, Gambling Commission, Department of Social Health Services, and Department of Services for the Blind)  
Occupied: 87.6%
- 5000 Capitol Boulevard, Tumwater, Washington 98502  
Type: Office  
Tenant: 1 Tenant (State of Washington, Office of the Insurance Commissioner)  
Occupied: 100%
- 8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Licensing)  
Occupied: 100%

Status of Receivership:

1. Bond: Upon appointment Pursuant to Paragraph 3.2 of Order, Receiver posted a bond with Farmers Insurance Group in the amount of \$10,000, Bond No. #LSM0785717, issued by RLI Insurance Company.
2. Bank Account: Pursuant to Paragraph 3.4.1 of Order, Receiver established a bank account, at Umpqua Bank, Bellevue, WA branch (#XXXXXX4077). As of June 30, 2016, the bank account balance was \$414,079.33.

<u>JUNE 2016</u>	Debit	Credit	TOTAL
Deposits:			
- Deposit from Tenants	\$ 367,873.31		
- Owner Contribution	\$ -		
TOTAL Deposits	\$ 367,873.31		<u>\$ 367,873.31</u>
Withdrawals:			
- Receiver Fee		\$ 5,400.00	
- Operating Expenses		\$ 120,596.99	
- Utilities		\$ 44,430.64	
- Other Expenses		\$ -	
- Gen & Admin		\$ 1,804.04	
TOTAL Withdrawals		\$ 172,231.67	<u>\$ 172,231.67</u>
NET INCOME			<u>\$ 195,641.64</u>
ADJUSTMENTS			
- Tenant Improvements		\$ 706.26	
- Owner Contributions	\$ 214,340.14		
TOTAL Adjustments			<u>\$ 213,633.88</u>
MONTHLY CASH FLOW	JUNE 2016		<u>\$ 409,275.52</u>
BEGINNING CASH BALANCE			\$ 4,803.81
ENDING CASH BALANCE			\$ 414,079.33

3. Receiver's Counsel: Pursuant to Paragraph 3.3.5 of Order, Receiver hired counsel to assist Receiver in this matter. Receiver's counsel is Charles E. Shigley of Alston Courtneage and Bassetti LLP, located at 1420 – 5<sup>th</sup> Avenue, Suite 3650, Seattle, WA 98101.
4. Appointment of Jennifer Bell as Property Manager: To assist Receiver, Jennifer Bell has been appointed as the senior property manager (PM) for the portfolio. Jennifer has over twenty years of experience in commercial property management.

5. Operations and Maintenance

Site inspections of properties revealed numerous deferred maintenance items. The comprehensive list of deferred maintenance items are in the 2016 operating budget that was submitted on July 6, 2016.

The following maintenance items have been scheduled in June and are anticipated to be completed and paid for in the month of July.

○ **1620 Pioneer Way, Moses Lake, Washington 98837**

- Locks & Security – Rekeyed all building exterior doors that contained key ways.
- HVAC R&M – Miscellaneous repairs to Unit 9, 18 15, 17, 10, 11 & 19. Repairs to include new compressor, fan motor, refrigerant and belts. Performed preventative maintenance on all of the rooftop HVAC units.
- Electrical R&M – Removed abandoned low voltage cabling. Repaired some of the electrical due to it not meeting code and potentially being a fire hazard. Removed power poles and associated low voltage cabling and changed all burnt out lamps and non-functioning ballasts.
- Fire Safety R&M – Replaced the fire alarm control panel, installed a new alarm panel and installed a new annunciator panel. Tested and tagged all past due fire extinguishers. Performed a fire alarm panel test.
- Landscape R&M – Prepared seed bed and re-seeded the turf with blue grass and perennial rye. Thatched and aerated the turf. Hauled and removed trash containers, concrete table/benches. Removed seven (7) dead plum trees, pruned shrubs, weeded/barked beds and activated the irrigation system.

○ **805 S. Mission Street, Wenatchee, Washington 98801**

- Landscape Maintenance – Initial cleanup of property (weed, prune, trim and remove debris).
- HVAC R&M – Reset all Carrier economizers and mechanical cooling and ensure that all damper motors are functioning. Purchased HVAC supplies (filters, evaporator coil and v-belt). Changed filters, belts and cleaned the coils on the rooftop HVAC equipment.
- Fire Safety R&M – Replaced fire alarm control panel, pull stations, smoke detectors and horn strobes. Conducted the annual fire alarm panel test, wet pipe fire sprinkler test and backflow assembly test.

○ **629 Woodland Square Loop SE, Lacey, Washington 98503**

- Landscape Maintenance – Clean-up in West parking lot (prune trees/shrubs, remove selected shrubs, spray vegetation, rake/dispose leaves in planting bed and blow parking lot). Installed 20 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
- Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-striped the parking lot.
- Fire Safety R&M – Annual wet sprinkler test.
- Roof Maintenance – Includes painting of rusted sheet metal flashings and painting of rusted gas line.
- Elevator – Commenced Labor of Industries code work to remove the red tag.

- **637 Woodland Square Loop SE, Lacey, Washington 98503**
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-stripped the parking lot.
  - Fire Safety R&M – Annual wet sprinkler and backflow assembly test.
  - Landscape Maintenance – Pruned old ivy growth, installed 15 yards of bark, irrigation start up and sprinkler head repairs for the turf area and beds around the building.
  - Roof Maintenance – Installed missing rise block protection pads.
  
- **640 Woodland Square Loop SE, Lacey, Washington 98503 (640/4565 have a shared HVAC plant)**
  - HVAC – Replaced sheaves and belts for both fan motors on Fluid Cooler #1 and Fluid Cooler #2; Cleaning of Fluid Cooler #1 and Fluid Cooler #2; Installed additional seismic bracing on the condenser water piping; Repairs to HVAC Unit #1-#7 (1<sup>st</sup> Floor)
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-stripped the parking lot.
  - Fire Safety R&M – Annual wet sprinkler and backflow assembly test.
  - Landscape Maintenance – Pruned old ivy growth, installed 50 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
  - Consulting Services – OAC has been contracted to investigate the source of water intrusion and provide a report with their findings. Coordination with PBS Engineering & Environmental will take place for the remediation and permanent fix.
  - Consulting Services – PBS Engineering & Environmental has been contracted to assess conditions fungal abatement spec.
  
- **645 Woodland Square Loop SE, Lacey, Washington 98503**
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-stripped the parking lot.
  - Landscape Maintenance – Installed 10 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
  - Roof Maintenance – Painted existing gas line and install block pads under gas/electrical conduit to provide membrane protection.
  
- **4565 7<sup>th</sup> Avenue SE, Lacey, Washington 98503 (640/4565 have a shared HVAC plant)**
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-stripped the parking lot.
  - Landscape Maintenance – Pruned old ivy growth, installed 55 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
  - Fire Safety R&M – Annual fire extinguisher and backflow assembly test.
  - Roof Maintenance – Applied sealant to storm collar and top of pipe; reseal and paint duct work.

- **5000 Capitol Boulevard, Tumwater, Washington 98502**
  - Roof Maintenance – Installed block pad and painted rusted gas line on the roof.
  - Fire Safety R&M – Performed annual wet sprinkler, backflow assembly and fire extinguisher test.
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-striped the parking lot.
  - HVAC R&M – HVAC compressor was replaced for one of the rooftop units.
- **8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106**
  - Fire Safety R&M – Performed annual fire extinguisher test.

6. Site Visits:

Property management site visits to the properties are as follows:

- 8830 25<sup>th</sup> Avenue SW, Seattle, WA – June 15<sup>th</sup>
- 805 S. Mission Street, Wenatchee, WA – June 13<sup>th</sup>
- 1620 S. Pioneer Way, Moses Lake, WA – June 14<sup>th</sup>
- Lacey and Tumwater Properties – June 2<sup>nd</sup>, 6<sup>th</sup>, 10<sup>th</sup>, 16<sup>th</sup>, 20<sup>th</sup> and 24<sup>th</sup>

7. Management of Property:

Pursuant to Paragraph 3.3.4 of Order, on June 3, 2016, Receiver/PM submitted a 30-day draft budget to Midland Loan Services, a PNC Real Estate business. A draft budget for July 2016 through December 2016 was submitted to Midland Services on July 6<sup>th</sup>.

8. Marketing/Leasing of Property:

Pursuant to Paragraph 3.4.4 of Order, Receiver is authorized to market the Property to obtain new tenants for current vacant space(s) and discuss renewal options.

- **1620 S Pioneer Way, Moses Lake, Washington 98837**  
Vacant – We have initiated discussions with the Moses Lake school district who is interested in leasing the building as an early learning center.
- **629 Woodland Square Loop SE, Lacey, Washington 98503**  
Vacant – Working to bring the building to a leasable condition before offering to tenants.
- **640 Woodland Square Loop SE, Lacey, Washington 98503**  
Employment Security Department – Lease has been renewed as follows:  
Term: 5 Years (07/01/2016 – 06/30/2021)  
RSF: 70,449  
Rent: \$113,892.55 per month <sup>(1)</sup>

<sup>(1)</sup> The Lessee shall not be required to pay the rental rate increase referenced in Paragraph 4 above until all of the work requested by Lessee in Additional Lease Provision paragraph 19 has been completed by Lessor. Until all such work is completed and approved by Lessee, the rate of \$113,360.17 per month, as required under SRL 11-0037 shall continue in effect.

- **645 Woodland Square Loop SE, Lacey, Washington 98503**  
Department of Licensing - Tenant has requested parking lot repairs. Tenant wants to discuss a five (5) year extension. Additional deferred maintenance remediation will be required. Tenant is developing a scope of work.
  
- **4565 7<sup>th</sup> Avenue South, Lacey, Washington 98503**  
Gambling Commission – Tenant is relocating to a nearby building. They want a larger 1<sup>st</sup> floor space for their gambling lab. Tenant has requested a six-month extension while their new space is completed.  
DSHS-DVAR – Tenant is proposing six months free rent. Landlord to remedy deferred maintenance. We expect to focus on this extension later this week.  
Department of Services of the Blind – Tenant is requesting a five (5) year extension. Tenant hasn't made a proposal other than requiring Landlord to remedy deferred maintenance. This extension will become a priority this week after we complete the Insurance Commissioner and EDS leases.
  
- **5000 Capitol Boulevard, Tumwater, Washington 98502**  
Office of the Insurance Commissioner – Lease is negotiated and work is priced. Lease renewal is with Lender for approval.
  
- **8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106**  
Department of Licensing – Landlord is working on completing the Deferred Maintenance List that is attached to the last lease renewal that was signed in March 2016.

Dated this 21<sup>st</sup>, day of July, 2016



By:

\_\_\_\_\_  
Edward Velton  
Receiver

Encl: As stated

# Appraisers' Experience Data



**David M. Chudzik, Ph.D., MAI**

Vice President

Valuation Advisory Services

## CAREER SUMMARY

Since joining Kidder Mathews' Valuation Advisory Services in October of 2004, David has provided valuation and consultation services for a wide variety of commercial property types including office, industrial, retail, multi-family, hospitality, marina and development properties. His experience includes complex properties like biotechnology research facilities, data centers, sawmills, shipyards, and other specialized property types. He has performed biotechnology valuation and market analysis on a national basis and authored the National Biotechnology Real Estate Market Analysis for GVA Worldwide. Assignments have included valuation of leasehold interests, air rights, condemnation compensation, conservation easements as well as market rent studies.

David's professional experience includes venture capital investing with emphasis in the life sciences industry. He has also worked as a development analyst and project manager at Seattle area real estate development companies. His development experience includes multi-family residential, commercial office, and marina developments.

David brings unique qualifications to real estate valuation and consulting making him well-qualified in the analysis of some of the most complex and sophisticated real estate.

601 Union St, Suite 4720  
Seattle, WA 98101

**T** 206.205.0222

**F** 206.205.0220

dchudzik@kiddermathews.com

## EDUCATION

- Doctor of Philosophy, Biochemistry, University of Washington
- Master of Business Administration, Management, University of Washington
- Bachelor of Science, Biochemistry, University of Washington
- Bachelor of Arts, Spanish, University of Washington

## PROFESSIONAL LICENSES

- Washington Certified General Real Estate Appraiser (No. 1102099)
- Oregon Certified General Real Estate Appraiser (No. C00182)

## AFFILIATION

Member of Appraisal Institute (MAI)

## David Chudzik, Ph.D., MAI continued

### PARTIAL CLIENT LIST

Allstate Life Insurance Co.	KeyBank	Puget Sound Bank
Alexandria Real Estate Equities	King County	Puget Western
Archdiocese of Seattle	Low Income Housing Institute	San Juan County Land Bank
Bank of America	Memorial Medical Center	Schnitzer West
BECU	Merrill Lynch	Seattle BioMed
Bloch Properties	Morgan Stanley	Seattle Monorail Project
Citibank	Morton McGoldrick, PS	Server Farm Realty
City of Seattle	Moss Adams	Stockbridge Capital Group
City of Renton	National Real Estate Advisors	Todd Shipyards
Davis Wright Tremaine	Nexus Properties	Unico Properties
East West Bank	Northwest Diabetes Research Center	Union Bank
First Sound Bank	Northwest Kidney Center	University of Washington
First Mutual Bank	Novartis	US Bancorp
GE Capital	Olympus Real Estate Partners	Vulcan Real Estate
H5 Capital	Overlake Medical Center	Washington Federal
Heritage Bank	Perkins Coie	Washington Trust Bank
Jefferson County	Port of Port Townsend	Wells Fargo
JPMorgan Chase Bank	Portland State University	

# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

**CERTIFIED GENERAL REAL ESTATE APPRAISER**

**DAVID MATTHEW CHUDZIK**  
**7047 51ST AVENUE NE**  
**SEATTLE WA 98115**

**1102099**

License Number

**03/17/2011**

Issued Date

**11/02/2018**

Expiration Date

*Pat Kohler*  
Pat Kohler, Director



**Crosby Nordblom**  
Associate Appraiser  
Valuation Advisory Services

## CAREER SUMMARY

Crosby Nordblom is an associate appraiser that joined the Valuation Services division of Kidder Mathews in November of 2015.

Prior to joining Kidder Mathews, Crosby worked for CBRE Group, Inc. in Seattle where he started off in commercial property management.

601 Union St, Suite 4720  
Seattle, WA 98101  
**T** 206.205.0209  
**F** 206.205.0220  
crosbyn@kiddermathews.com  
.....

## EDUCATION

Bachelor of Arts, Economics, Colorado College

## STATE CERTIFICATION

Crosby is a registered real estate appraiser trainee in Washington State (License No. 1001854).

## APPRAISAL COURSEWORK

- Uniform Standards of Professional Appraisal Practice, Appraisal Institute – 2015
- Basic Appraisal Principals, Appraisal Institute – 2015
- Basic Appraisal Procedures, Appraisal Institute – 2015
- Supervisor-Trainee Course for Washington, McKissock – 2015

## PROFESSIONAL AFFILIATIONS

- Practicing Affiliate of the Appraisal Institute, Member No. 593374

# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION

THIS CERTIFIES THAT TRE PERSON NAMED HEREON IS AUTHORIZED, AS PROVIDED BY LAW, AS A



STATE REGISTERED REAL ESTATE APPRAISER TRAINEE

CROSBY VAN CURAN NORDBLOM  
503 N BOWDOIN PLACE  
SEATTLE WA 98103

Cert/Lic No.  
1001854

Issued Date  
12/23/2015

Expiration Date  
02/28/2017

  
Pat Kohler, Director

# Exhibit C

Appraisal Report

637 Woodland Sq. Loop SE | Lacey, WA

as of January 1, 2017



Prepared for

Seahawk Portfolio, LLC, Mariners  
Portfolio, LLC, WA Portfolio, LLC, and  
Olympia Office, LLC

Scott Switzer

Prepared by

David Chudzik, Ph.D., MAI

Crosby Nordblom

KM Job A16-0972

**Kidder Mathews**

**Valuation Advisory Services**

601 Union Street, Suite 4720  
Seattle, WA 98101

206.205.0200 | Fax 206.205.0220  
dchudzik@kiddermathews.com  
kiddermathews.com

November 8, 2016

Mr. Scott Switzer  
Seahawk Portfolio, LLC, Mariners Portfolio, LLC, WA Portfolio, LLC, and Olympia Office, LLC  
10900 4th Ave., Suite 2300  
Bellevue, WA 98004

Re: 637 Woodland Square Loop SE  
Lacey, WA 98168

Dear Mr. Switzer:

At your request, we have prepared an appraisal of the above-referenced property, which is fully described in the attached appraisal report. As requested, we have estimated the market value of the subject, with an effective appraisal date of January 1<sup>st</sup>, 2017. It is assumed that no significant market changes will take place between today and the effective date of value. We have inspected the subject property and obtained data regarding other similar real estate in the area.

This report has been prepared in conformance with the current Uniform Standards of Professional Appraisal Practice (USPAP). In addition, our services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA). This report is intended for purposes related to negotiating and restructuring mortgage loans related to the subject, to be used by the client (Seahawks Portfolio LLC, Mariners Portfolio LLC, WA Portfolio LLC, and Olympia Office LLC).

As a result of our investigation and analysis, we have concluded that the market value of the leased fee interest in the subject real estate, subject to the limiting conditions and assumptions contained herein, is:

*Prospective Market Value, Leased Fee, as of January 1, 2017* ..... **\$3,100,000**

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'David Chudzik'.

David Chudzik, Ph.D., MAI  
State-certified General Real Estate  
Appraiser #1102099

A handwritten signature in blue ink, appearing to read 'Crosby Nordblom'.

Crosby Nordblom  
State-Registered Real Estate Trainee  
Appraiser #1001854

DC-CN/em

## Certification

We certify that, to the best of our knowledge and belief:

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- 3) We have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- 8) We have made a personal inspection of the property that is the subject of this report.
- 9) We have not provided professional appraisal or consulting services concerning the subject property within the past three years.
- 10) No one provided significant real property appraisal assistance to the persons signing this certification.
- 11) The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute and conforms with the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA).
- 12) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 13) As of the date of this report, David Chudzik, Ph.D., MAI, has completed the continuing education program for Designated Members of the Appraisal Institute, and Crosby Nordblom, Practicing Affiliate, has completed the Standards and Ethics Education Requirement of the Appraisal Institute for Practicing Affiliates.



David Chudzik, Ph.D., MAI  
State-certified General Real Estate  
Appraiser #1102099



Crosby Nordblom  
State-Registered Real Estate Trainee  
Appraiser #1001854

## Limiting Conditions

Limiting conditions specific to this appraisal are:

- 1) Physical dimensions for the property were taken from public records or from information provided, and the appraisers assume no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
- 2) We are assuming that there are no hidden or unapparent conditions of the property, subsoil, or structures (including asbestos, soil contamination, or unknown environmental factors) that render it more or less valuable. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.
- 3) No responsibility is assumed for the legal description or for matters including legal or title considerations.
- 4) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 5) The appraisers are not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made.
- 6) The allocation of total value to land, buildings, or any fractional part or interest as shown in this report, is invalidated if used separately in conjunction with any other appraisal.
- 7) Valuation Advisory Services is a subsidiary of Kidder Mathews, a full service commercial real estate brokerage firm. On occasion, employees or agents of the firm have interests in the property being appraised. When present, interests have been disclosed, and the report has been made absent of any influence from these parties.

### RESTRICTION UPON DISCLOSURE & USE:

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the appraisers. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraisers.

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# Summary of Appraisal

## Summary of Appraisal

**Identity of Property** 637 Woodland Square Loop SE  
Lacey, WA 98168

**Property Description** The subject is a two-story office building located in Lacey's Woodland District, which is a substantial pocket of office uses focused on government tenancies. It has good access and receives average exposure, as it has no frontage along local arterials. The 1986, reinforced-concrete structure contains 18,104 sq ft of rentable area per the rent roll provided. It is fully occupied by a single government tenant, the Department of Corrections, which is leased through May of 2019 at a flat rate of \$18.40/sq ft on a modified gross basis. Overall, the building has a functional layout and is in average condition with no deferred maintenance indicated by the receiver.

The subject is comprised of a single, 0.83-acre parcel, zoned Woodland District by the City of Lacey. Parking is slightly below average at a ratio of 2.7 stalls per 1,000 sq ft of rentable area. This ratio includes 9 parking stalls from the parking lot to the east (APN #84990001100), which is under the same ownership as the subject. These additional stalls do not support a specific building and are allocated in our appraisal to best support the ownership's portfolio as a whole. This report assumes that a parking easement is in place to benefit the subject property.

**ADDRESS** 637 Woodland Square Loop SE  
Lacey, WA 98168

**ASSESSOR'S TAX  
PARCEL NUMBER** 84990001200

**LEGAL DESCRIPTION** The legal description of the subject property is as follows:

*Section 17 Township 18 Range 1W Plat WOODLAND SQUARE  
BLA6144 TR B Document 005/682*

**Ownership History** Per public records, the property is collectively owned by a group of LLCs – Seahawk Portfolio, LLC (30%), Mariners Portfolio, LLC (10%), WA Portfolio, LLC (30%), and (30%) Olympia Office, LLC. Title was transferred to these entities through a quitclaim deed on September 23<sup>rd</sup>, 2016 from CDC Properties I, LLC for a recorded amount of \$0. This is not considered to be a true real estate sale.

On March 9<sup>th</sup>, 2016, the process to foreclose on the subject was started and a notice of trustee's sale was issued on July 5<sup>th</sup>, 2016. It was to sell at public auction on October 21<sup>st</sup>, 2016, but the new owner entity has postponed this process with a stay of foreclosure.

There have been no other sales or listings of the property in the past five years that were reported by the current owners or noted in public records.

**Property Rights  
Appraised**

This is an appraisal of the leased fee estate. The definition of "leased fee estate" is as follows:

*The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires.*

Source: The Dictionary of Real Estate Appraisal, Sixth Edition. Chicago: Appraisal Institute, 2015.

**Purpose of Appraisal**

The purpose of this appraisal is to estimate the market value of the subject property. The term "Market Value" is defined as:

*The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date, and the passing of title from seller to the buyer under conditions whereby:*

- a. the buyer and seller are typically motivated;*
- b. both parties are well informed or well advised, and acting in what they consider their own best interests;*
- c. a reasonable time is allowed for exposure in the open market;*
- d. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- e. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [g].

## Scope of Work

The subject property is appraised based on the following scope of work.

- The subject contains 36,208 sq ft of land. It is improved with a two-story, office structure originally built in 1986. An inspection of the property was completed on October 14, 2016.
- This report utilizes a prospective market value based on an effective date of January 1, 2017. It is assumed that no significant market changes will take place between today and the effective date of value.
- This report also makes the assumption that a parking easement is in place across the parcel directly to the east (APN #84990001100) to benefit the subject property. This parcel is under the same ownership as the subject and contains excess parking that does not supporting a specific building.
- In this report, the Sales Comparison and Income Capitalization Approaches are used. The Cost Approach is not employed as typical market buyers and sellers would not use this approach in valuing buildings like the subject.
- The research of data included both general and specific data. Sources of general data that are included in the market trends and neighborhood description were obtained from various private and governmental sources.
- Specific data concerning the subject was obtained from various sources including the owner (leases, income statements, environmental reports, title report, and rent roll) and the Thurston County Assessor (zoning, assessed values and real estate taxes).
- Data compiled in the analysis of the building sales was obtained from CoStar, CBA (Commercial Broker Association), as well as Kidder Mathews' own in-house data files. Rental data was obtained from leasing agents, public records, and in-house data files on competing properties.
- All of the sales and rental data were confirmed with a party involved in the transaction and/or through public records.
- The reconciliation and final value opinion(s) is based on an overview of which approach or approaches we believe are the best indicators of value for the subject.

**Intended Use/User(s)** This report is to be used by the client (Seahawk Portfolio, LLC, Mariners Portfolio, LLC, WA Portfolio, LLC, and Olympia Office, LLC) with regards to purposes related to negotiating and restructuring mortgage loans related to the subject.

**Approaches to Value & Final Value** Prospective Market Value, Leased Fee, as of January 1, 2017

<b>Conclusion</b>	Sales Comparison Approach	\$2,900,000
	Income Capitalization Approach	\$3,100,000
	Value Conclusion	\$3,100,000

**Extraordinary Assumptions** This report utilizes a prospective market value based on an effective date of January 1, 2017. It is assumed that no significant market changes will take place between today and the effective date of value.

This report also makes the assumption that a parking easement is in place across the parcel directly to the east (APN #84990001100) to benefit the subject property. This parcel is under the same ownership as the subject and contains excess parking that does not supporting a specific building.

**Hypothetical Conditions** None

**Date of Report** November 8, 2016

**Date of Last Inspection** October 14, 2016

**Effective Date of Appraisal** January 1, 2017

**Marketing Time** 6 to 9 Months

**Exposure Time** 6 to 9 Months



Aerial Map

## Subject Photographs

View of subject looking south  
from across Woodland Sq.  
Loop SE



View of subject from the east



View looking east of subject's  
southern face



## Subject Photographs

View looking west of subject's  
southern face



View of subject's entrance  
providing elevator access



View of subject interior



## Subject Photographs

View of presentation/  
conference room



View of breakroom



View of private office

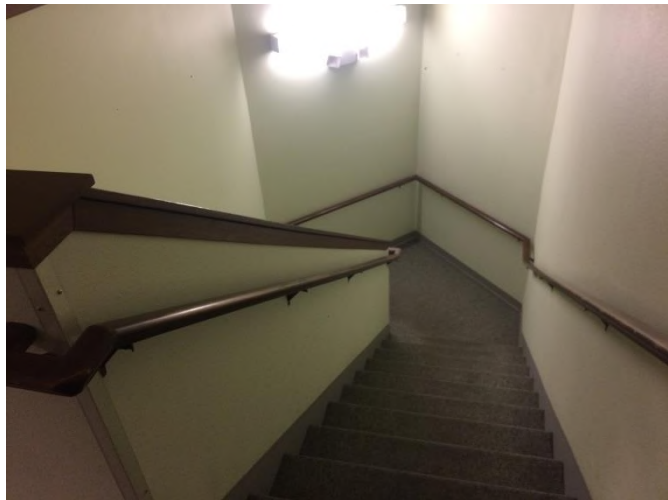


## Subject Photographs

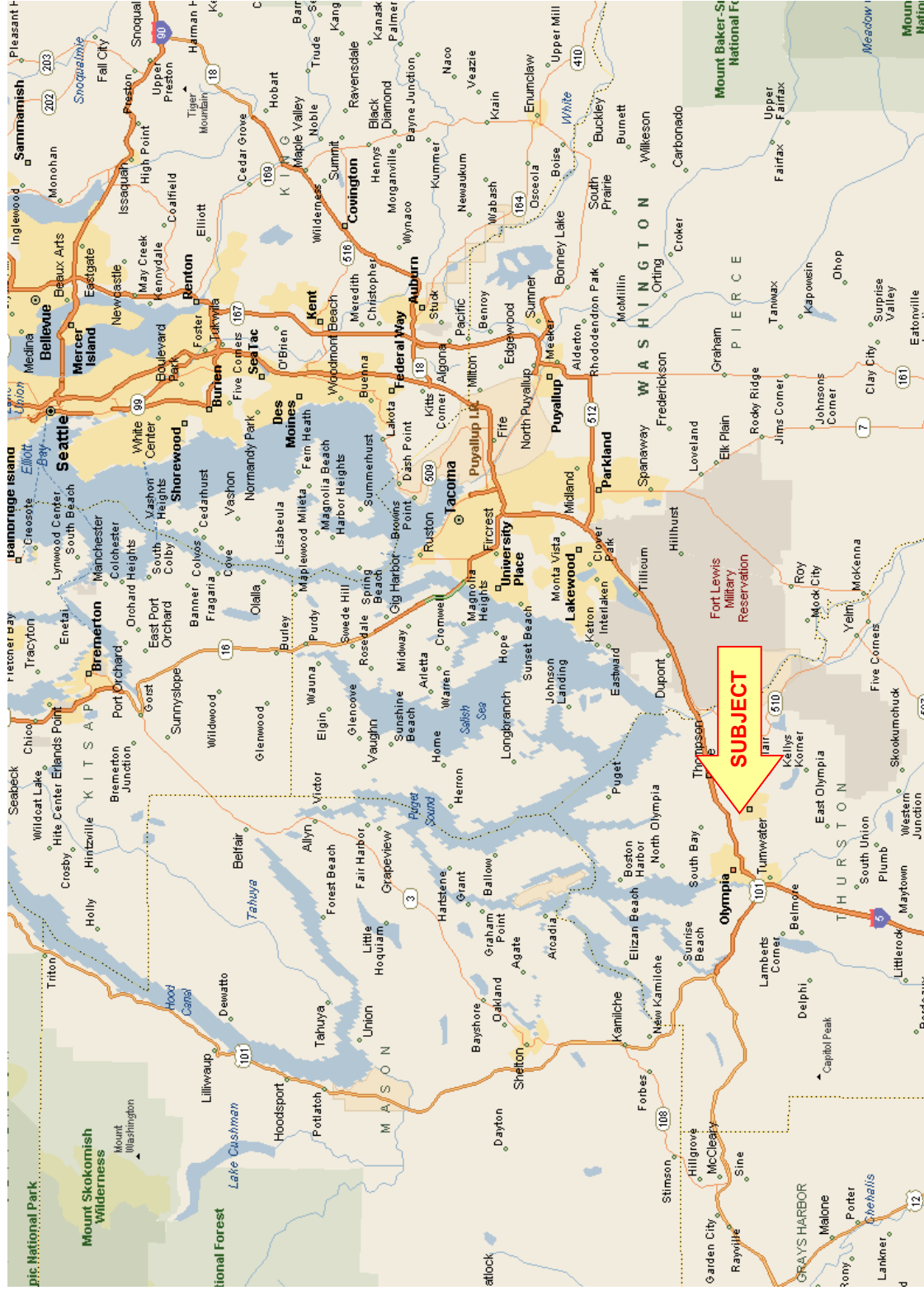
View of open, cubicle area



View of stairwell leading from  
2<sup>nd</sup> floor



# Market Overview



## Regional Map

# Regional Overview

## Introduction

The subject is located in Thurston County, which is part of the four county Puget Sound MSA. The core of the market is comprised of King, Snohomish and Pierce counties. Thurston is at the south end and Kitsap is on the northwest side.

## National Overview

The national recovery has now lasted four years with job growth continuing with only minor pauses during the past two quarters. The gain outside of base wage jobs that started in 2015 has slowed but is still trending upward. 2015 ended with 2.53 million new jobs, an increase of 2.1%. This follows 2.26 million in 2014 and 2.25 million in 2013. The forecast for 2016 is a further increase by 1.8%. If the 2016 projection is on track, the unemployment rate will drop below 5.0%. Unemployment was 5.0% in March 2016, 50 basis points (bps) down from March 2015.

The GDP growth rate for 2015 was 2.4%, the same as 2014, and down slightly from 3.13% in 2013. The forecast for 2016 is GDP growth of 2.1% and 2017 bouncing back up to 2.4%.

Inflation remains under control, at 0.1% in 2015 following 1.6% in 2014 and 1.3% in 2013. The forecast has been revised to 1.3% for 2016 then increasing to 2.3% in 2017. Modest GDP and inflation has prevented the Federal Reserve from significantly increasing interest rates.

## Regional and National Economic Indicators

forecast

Annual Change	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Puget Sound Region</b>											
Employment	0.9%	-4.9%	-1.7%	1.6%	2.3%	2.8%	2.8%	2.9%	1.8%	1.6%	1.2%
Personal Income	3.1%	1.6%	2.5%	6.1%	4.9%	2.6%	6.2%	5.3%	4.3%	5.2%	4.9%
Consumer Price Index	4.3%	0.6%	0.3%	2.6%	2.5%	1.3%	1.8%	1.4 %	1.4%	2.4%	2.4%
Housing Permits	-43.0%	-50.1%	31.5%	11.9%	51.8%	8.9%	16.9%	19.8 %	-19.3%	2.2%	4.7%
Population	1.4%	1.5%	1.0%	1.0%	1.3%	1.4%	1.4%	1.3 %	1.3%	1.2%	1.0%
<b>United States</b>											
Employment	-0.6%	-4.4%	-0.7%	1.2%	1.7%	1.7%	1.9%	2.1%	1.8%	1.4%	1.1%
Personal Income	2.9%	-1.7%	3.7%	5.1%	4.2%	2.0%	4.4%	4.5%	4.4%	4.7%	4.8%
Consumer Price Index	3.8%	-0.3%	1.6%	3.2%	2.1%	1.5%	1.6%	0.1%	1.3%	2.3%	2.4%
Housing Starts	-32.9%	-38.4%	5.6%	4.5%	28.0%	18.7%	7.8%	10.6%	12.9%	9.6%	7.3%

Source: The Puget Sound Economic Forecaster, March 2016

Income and sales tax revenues continue a path of sporadic increases, providing limited economic lift. Home sales continue to be strong, although new homes were restricted somewhat by low inventory in the 1<sup>st</sup>

quarter. Prices continue to move up, especially in the top markets. Consumer confidence increased to 93.1 in November 2015 as measured by the Thomas Reuters/University of Michigan Index of Consumer Sentiment. This was up from 88.8 a year previously and from 90.3 in October. The positive outlook remains stratified with working wage household sentiment more pessimistic. Perhaps anticipating slower long-term growth, the Measure of CEO Confidence continued its slow downward trend, hitting 48 as of the 3<sup>rd</sup> quarter report, down from 57 in the 1<sup>st</sup> quarter 2015. On the positive side, help wanted online listings increased by 172,300 in October, continuing an upward trend that started earlier in 2015.

### **Regional Overview**

The Puget Sound region is one of the best performing areas of the nation. Employment growth was 65% higher than the national average in 2013, 47% in 2014 and 38% in 2015. Since the depth of the recession in early 2010, the region has added nearly 400,000 new jobs. A positive trend over the past year was an expansion of the job growth out from the core companies, specifically Amazon and other tech firms. The growth has also been strong in the lower wage categories, even with the recent increases in the State and Seattle minimum wages. The retail category has done well as retail sales have improved for 12 quarters year over year. Employment growth was 2.8% in 2014 and 2.9% in 2015 and 4.2% for the 12 months ending in September 2016.

With the strong employment growth and geographic constraints, the region is in demand for national and international investors. Apartments remain at a plateau at the peak of the cycle as prices continue to increase even as a large number of new units were delivered to the market and rent growth has started to moderate. Most of the office based employment growth has occurred in the Seattle and Bellevue CBDs in King County, and these two markets have seen the bulk of new development. Industrial real estate has strong occupancy and high prices with institutions looking for traditional warehouse product and owner users dominating close in Seattle markets. The retail market is strong in core trade areas. Daily needs retail—food and drugs—is the strongest sector. New home inventories are low and infill construction is active.

### **Population**

During the past 40 years, the population of Washington has grown by an average of approximately 20% per decade, according to the Puget Sound Regional Council (PSRC). The five counties that comprise the Central Puget Sound Region and account for 59% of Washington's 2015 population (7,061,410) experienced a population increase of 13.7% during the previous decade. The region's growth rate was 1.3% in 2015,

following 2014 at 1.4%, with in-migration fueled by job growth. Preliminary estimates for 2016 are for 1.3% growth.

## Employment

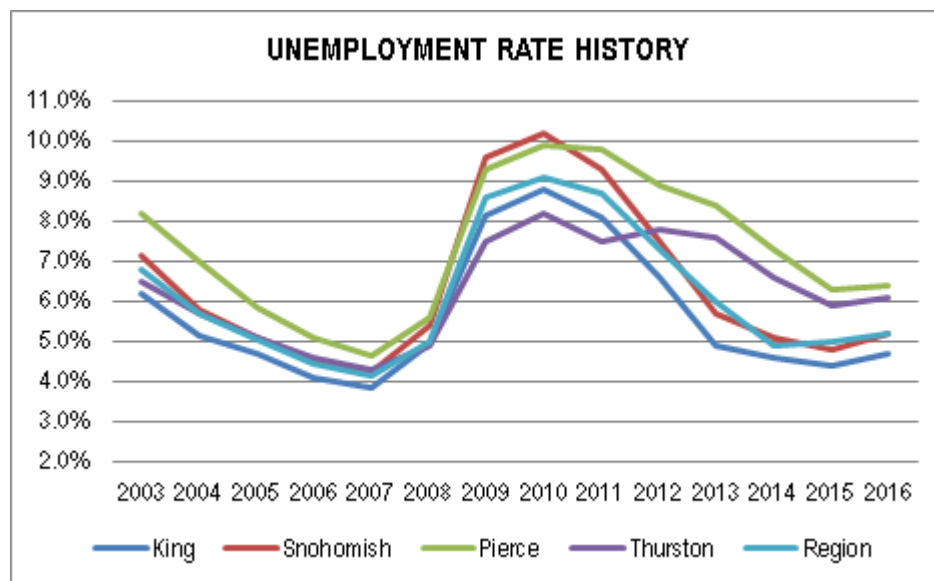
Regional employment is at an all-time high, well above the previous high in 2009. The recovery began in 2011. Year over year employment growth was a robust 4.2%, ranging from mild growth of 1.5% in Kitsap to 4.8% in King and Snohomish.

## Non-Farm Employment

County	SEPTEMBER 2015		SEPTEMBER 2016	
	Jobs	Unemployment	Jobs	Unemployment
King	1,123,838	4.6%	1,177,410	4.0%
Snohomish	382,221	4.9%	400,553	4.3%
Pierce	366,110	5.8%	378,562	6.0%
Thurston	117,443	5.4%	120,042	5.7%
Kitsap	108,117	5.0%	109,741	5.7%

Source: Washington State Employment Security Department

In the individual projections, King and Snohomish showed the fastest recovery. Pierce and Thurston have taken more time with the cut back of government jobs kicking the rate back up in 2012.



Source: Washington State Employment Security Department

The unemployment rate is expected to continue to decline, moderated slightly by the return to the labor force of those persons uncouncted (unemployed but not actively seeking employment) and under-employed, both of whom are not reflected in the current calculation.

Amazon has been the biggest single contributor to employment growth. The company's employment in the state is about 24,000, almost all in Seattle. Amazon shows no signs of slowing anytime soon. The company's confidence in that was underlined by the construction on the first two of three 1.1 million sq ft office buildings for its own use, in addition to announcing leases for 1.3 million sq ft in other Seattle projects. Microsoft had more local employees at 43,618 at the end of 2015 but the growth rate is much lower. Significant expansions are being made by Facebook, Tableau, Zillow, and Google.

The region's largest employer remains Boeing with a total of 77,671 employees in Washington, almost all of those in King, Snohomish, and Pierce counties. However, Boeing continues to reduce jobs, dropping 2,528 between January 2015 and March 2016. Boeing employment was 6.3% of the region in 1997 and this has declined to 3.9% in 2016. There is less hope of a future increase as Boeing has diversified in other states.

## Economic Indicators

The finance, insurance, and real estate (FIRE) and construction sectors have recovered as commercial and residential construction continues to expand. Manufacturing losses were led by those Boeing jobs, with a myriad of smaller companies cutting back by smaller amounts. Many of those Boeing jobs have now been lost. Retail job gains follow the increases in retail sales volume. Sales growth continues its fifth year of increases with a robust gain in 2015, the strongest rate in 12 years.

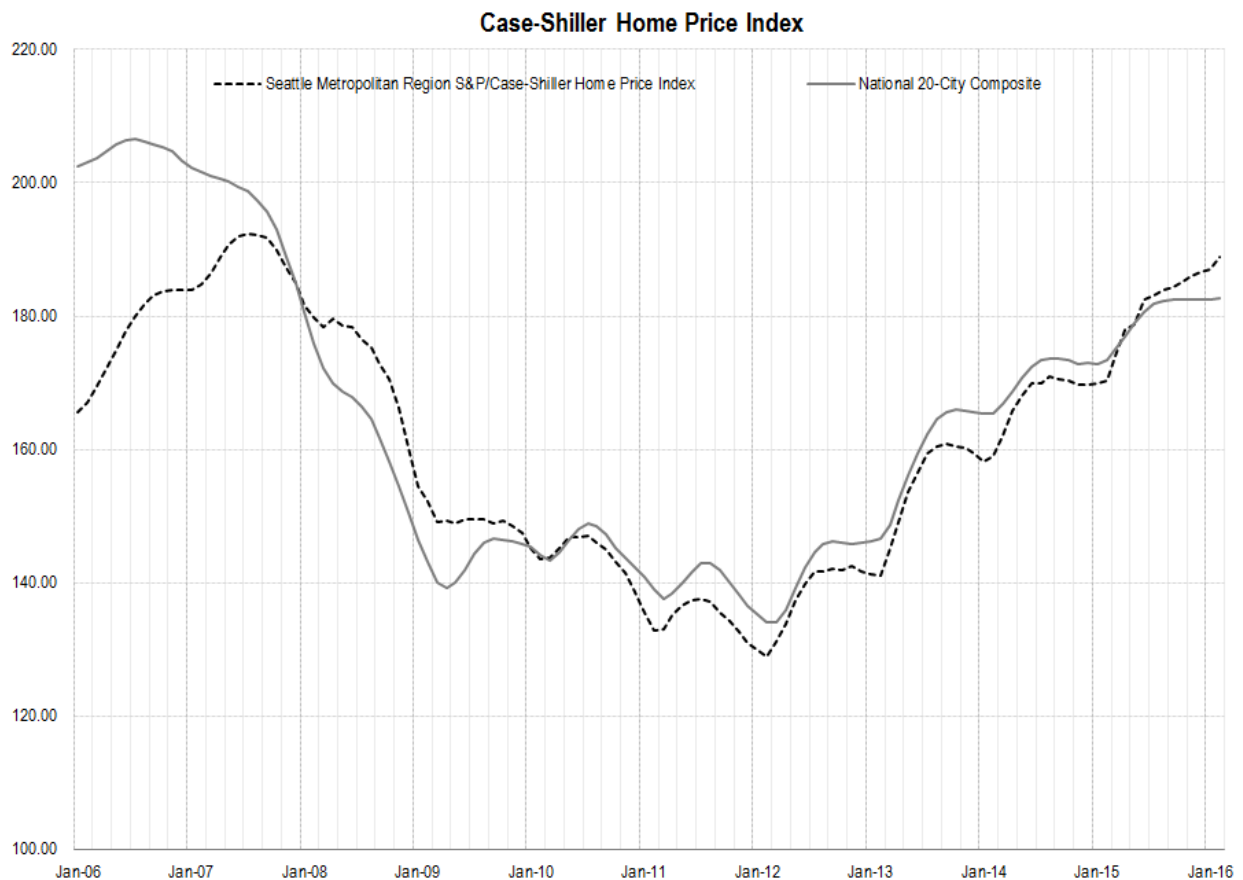
### Washington State Retail Sales (\$,000)

	2015	2014	2013	2012	2011	2010
4Q	35,979,968	33,372,252	31,172,889	29,435,885	2,7890,822	26,780,864
3Q	35,837,473	33,249,625	28,788,875	28,766,782	27,293,863	26,469,373
2Q	33,856,679	30,973,320	28,998,096	26,803,035	25,613,078	24,895,067
1Q	29,689,766	27,248,916	25,985,522	24,028,170	22,943,062	22,629,812
<b>Total</b>	<b>135,363,886</b>	<b>124,844,113</b>	<b>114,945,382</b>	<b>109,033,872</b>	<b>103,740,825</b>	<b>100,777,126</b>
<b>Change</b>	<b>9.1%</b>	<b>8.6%</b>	<b>5.4%</b>	<b>5.1%</b>	<b>2.9%</b>	<b>-0.1%</b>

Personal income increased an average of 4.2% between 2010 and 2014, spiking at 6.5% in 2014. The forecast is 5.3% in 2016 and 4.3% in 2017. These gains are amplified by low inflation, which averaged 1.9% over the past five years. The CPI increase for 2015 was 1.4%, expected to increase to 2.4% in 2016 and 2017.

## Regional Housing Market

The housing market has shown varying levels of recovery, based on location and price point. Sales started to recover in 2012 with a 20% increase in King and Snohomish Counties. Pierce County remained soft, increasing only 3.5%, reflecting a lack of job growth. Values also first started to recover in 2012. These trends continued through 2015. King County sales increased by 10.8% in 2015, with new home sales up 9.2%. Snohomish was up 0.8% and Pierce showed pent up demand with sales up 2.8% after increasing 22% in 2013. Sales volume increased 18.4% in Snohomish in 2015 (27.0% in new construction) and 16.7% (3.6% new) in Pierce. Median prices were up 8.1% in King, 8.9% in Snohomish, and 8.7% in Pierce in 2015.



Standard & Poor's Case-Shiller Index improved for each month since May 2012 except for some minor seasonal dips in the 3<sup>rd</sup> quarters of 2013–2015. Improvement was 12.2% in 2013, 6.5% in 2014, and 9.9% in 2015, and continued up through the first two months of 2016. Prices are now only 1.8% from the peak prior to the recession (better than the national prices still down 11.5%). Improvement has been stronger in Seattle's

close-in neighborhoods and on the Eastside around Bellevue. In those markets, inventory levels are very low, creating over-bids in popular neighborhoods. Housing-permit activity increased by 16.9% in 2014 and 19.8% in 2015. That is forecast to reverse with a 19.3% decrease in 2016 as builders keep inventories low and close-in sites are rare. Permits are then expected to increase at moderate 2.2% to 4.7% rates in 2017/2018.

## Commercial Real Estate Markets

The region ranks in the top five national investment markets. Class A core apartments, office, retail, and industrial properties are all still on the institutional buyers' list with strong demand and pricing. Apartments have been at the top of the cycle for several quarters now. The other categories are still ascending. Vacancy rates in the region are as follows:

### Regional Vacancy Rates - 3Q 2016

Segment	Seattle	King	Pierce	Snohomish	Kitsap	Thurston
Office	6.9%	7.2%	7.1%	6.4%	7.2%	6.7%
Industrial	1.9%	2.7%	5.4%	3.9%	1.4%	2.5%
Apartment	4.0%	3.7%	2.8%	4.0%	2.3%	2.6%
Retail	2.0%	3.1%	4.9%	4.3%	6.8%	4.4%

Source: CoStar, Dupre+Scott (apartment)

Even though rent growth in the apartment market has started to moderate, prices continue to increase as cap rates remain very low, tied to low interest rates and the low perceived risk. This will be tested as new construction deliveries peak in 2016/2017 in both the apartment and office categories. The apartment market continues to expand with nearly 19,000 units under construction in the region. The bulk of those are in larger projects in the area around the Seattle CBD, but development has begun to increase in the suburban markets as well.

The office market has seen most demand in the core markets like Seattle and Bellevue CBDs. Amazon is building for itself and remains one of the top lessees as well. Developers are doing build-to-suits for Facebook, Google, and Tableau.

Industrial leasing is strong. This may be a factor of higher rents that are up more than 20% over the past three years. Retail has shown improvement, with vacancy down and rental rates moving up in stable and strong trade areas. Both industrial and retail markets have been boosted by increased retail sales.

The lodging market has continued to improve, reflecting the tourist draw of the region and strong conference business. Long term, each sector's expansion is limited by available land, a major reason that investors rank the region so highly.

Investors have begun to back off on some pricing parameters with fewer rent spikes and increased terminal capitalization rates as eventual interest rate growth is acknowledged. That factor will likely have an effect on going-in rates at the next increase as the previous one was absorbed via lower equity return. Many investors do not plan to repeat that adjustment.

#### **Area Market Summary**

The long-term outlook for the region continues to be better than most markets nationwide. The recovery has been strong for four years. Job growth may have peaked in 2015 with 2.9% growth, but the projected fall-off has repeatedly been reduced. Retail sales showed a very strong increase in 2015, with only minor signs of slowing so far in 2016. The region is expected to outperform most of the nation, based on the diversified core of the economy anchored by Microsoft, Amazon, and Boeing as specific examples. Even though two of those three shed jobs in 2014 and in early 2015, those losses were covered by the growth of Amazon and other tech companies.

Most of the local real estate markets are in some level of ascendance, or extended peak-plateau. Apartments are perched at a plateau with no signs of descent near-term. Investment activity continues to increase primarily in the best quality properties in all categories by institutional investors. Sales have increased in the value-add sector of the office, apartment, and retail markets as the returns available on Class A properties are squeezed by high demand.

2014 and 2015 were both stronger years than initially forecast across the region. The forecasts for 2016 appear to be conservative, and job growth has not yet slowed. If the rate of growth slows in 2017, this will test the apartment market since a large number of units are scheduled for completion in 2016 and 2017. It should have less effect on the office and retail categories where demand for space tends to lag job growth by a few quarters. The real estate markets in the region have solid fundamentals due to the broad-based economy.

# Neighborhood Description

## Introduction

The subject is located in the north-central portion of incorporated Lacey, Thurston County. Olympia is adjacent directly to the west and the Hawk's Prairie retail and industrial area is to the east. A location map is shown on the previous page, with the subject's location noted. The subject is part of the Lacey's primary retail and office node that follows on both sides of I-5 and Martin Rd. between Boulevard Rd. to the west and Marvin Rd. to the east. This commercial concentration serves Tumwater, Olympia and Yelm. The subject's immediate neighborhood is moving toward office uses, and new retail development is most active at the intersection of Marvin Rd. and I-5.

## Nearby and Adjacent Land Uses

The subject is part of the micro-market of office and retail space between College and Sleater-Kinney Rd. SE. I-5 is nearly adjacent to the north and the south boundary of the immediate neighborhood is Pacific Ave. SE, a major east-west thoroughfare. Overall, there has been very little change in the neighborhood in recent years. Vacancy increased dramatically as a number of buildings were delivered as the recession hit. A number of State agencies also then opted to condense their operations into fewer buildings and many relocated for newer or build-to-suit buildings in Tumwater. This effect has slowed significantly in recent years, but has hit the subject's immediate office node particularly hard. This node of over 40 office buildings accounts for just over half of Lacey's office inventory, but about 88% of the submarket vacancy, which currently sits at 12.90%.

To the west are a Fred Meyer and a retail power center anchored by Sears, Target and Kohls. To the east, across College St. SE, is the St. Martins University campus and St. Martins Park. Beyond Pacific Ave. SE to the south, uses quickly transition to single-family residential uses. To the north of I-5, there are a few older retail uses, the largest being Lowe's, but uses also quickly transition to residential.

## Access

Access to the neighborhood is provided by two major north-south streets (Sleater-Kinney and College), each providing access to full I-5 interchanges. East-west traffic is concentrated on two arterials in addition to I-5: Martin Way E. and Pacific Ave. SE. Access through the remaining portion of the neighborhood is a full grid of local streets, some of which are interrupted by larger parcels, I-5, and St. Martins Park.

A Thurston County Transit station is located just northwest of the subject at Golf Club Pl. SE and 6th Ave. SE. This feature is helpful for many office tenants and improves the subject's overall access.

**Neighborhood  
Demographics**

Lacey's demographics are generally positive with a forecasted population growth of 1.41% annually, above county levels of 1.24%. Owner-occupied housing and household incomes are slightly below county and state levels. Demographics with the subject's immediate vicinity are moderately below those of Lacey as a whole.

**Conclusion**

Lacey is a mid-size community with a full array of housing and services. The subject's immediate neighborhood is centrally located with very good access throughout the city and the region with two interchanges with I-5 within a mile of the subject. Development was paused for all product types during the recession, but returned in the last few years with a number of retail, residential and industrial deliveries. Surrounding uses are supportive of office use, but the submarket is still recovering from high vacancy and reduction of government office space demand.

# Office Market Overview

## Lacey Office Submarket

Quarter	Inventory Bldgs	Inventory SF	Vacant SF Total	Vacant Percent Total	Net Absorption SF Total	Deliveries Bldgs	Deliveries SF	Under Construction Bldgs	Under Construction SF	Office Base Rent Overall
QTD	135	2,086,377	272,231	13.00%	(2,119)	0	0	0	0	\$15.35/NNN
2016 Q3	135	2,086,377	270,112	12.90%	14,625	0	0	0	0	\$15.42/NNN
2016 Q2	135	2,086,377	284,737	13.60%	60,628	1	16,700	0	0	\$16.00/NNN
2016 Q1	134	2,069,677	328,665	15.90%	484	0	0	1	16,700	\$15.89/NNN
2015 Q4	134	2,069,677	329,149	15.90%	2,950	0	0	1	16,700	\$15.92/NNN
2015 Q3	134	2,069,677	332,099	16.00%	(2,756)	0	0	0	0	\$16.04/NNN
2015 Q2	134	2,069,677	329,343	15.90%	8,576	0	0	0	0	\$15.95/NNN
2015 Q1	134	2,069,677	337,919	16.30%	3,819	0	0	0	0	\$15.96/NNN
2014 Q4	134	2,069,677	341,738	16.50%	60,729	0	0	0	0	\$15.94/NNN
2014 Q3	134	2,069,677	402,467	19.40%	(67,203)	0	0	0	0	\$15.28/NNN
2014 Q2	134	2,069,677	335,264	16.20%	5,442	0	0	0	0	\$14.51/NNN
2014 Q1	134	2,069,677	340,706	16.50%	(35,191)	0	0	0	0	\$14.50/NNN
2013 Q4	134	2,069,677	305,515	14.80%	4,780	1	2,800	0	0	\$14.61/NNN
2013 Q3	133	2,066,877	307,495	14.90%	(20,508)	0	0	1	2,800	\$14.76/NNN
2013 Q2	133	2,066,877	286,987	13.90%	60,100	0	0	1	2,800	\$14.48/NNN
2013 Q1	133	2,066,877	347,087	16.80%	15,841	0	0	1	2,800	\$14.60/NNN
2012 Q4	133	2,066,877	362,928	17.60%	16,359	0	0	0	0	\$14.57/NNN
2012 Q3	133	2,066,877	379,287	18.40%	(87,784)	0	0	0	0	\$14.60/NNN
2012 Q2	133	2,066,877	291,503	14.10%	9,325	0	0	0	0	\$14.98/NNN
2012 Q1	133	2,066,877	300,828	14.60%	(5,942)	0	0	0	0	\$14.78/NNN
2011 Q4	133	2,066,877	294,886	14.30%	3,322	0	0	0	0	\$15.02/NNN
2011 Q3	133	2,066,877	298,208	14.40%	(16,707)	1	4,723	0	0	\$14.89/NNN
2011 Q2	132	2,062,154	276,778	13.40%	5,912	0	0	1	4,723	\$14.93/NNN
2011 Q1	132	2,062,154	282,690	13.70%	(6,731)	0	0	0	0	\$15.07/NNN
2010 Q4	132	2,062,154	275,959	13.40%	28,274	0	0	0	0	\$15.23/NNN
2010 Q3	132	2,062,154	304,233	14.80%	(32,516)	0	0	0	0	\$15.55/NNN
2010 Q2	132	2,062,154	271,717	13.20%	(2,896)	0	0	0	0	\$15.70/NNN
2010 Q1	132	2,062,154	268,821	13.00%	5,152	0	0	0	0	\$15.78/NNN

## Office Market Overview

### **Thurston County Submarket**

In the Thurston County market, Washington State is the largest office user by far, in both owned and leased space. Beginning with space directly around the capital and most recently expansions in Tumwater and Lacey prior to the recession. The State occupies multiple buildings in Tumwater, Lacey, Downtown Olympia and peripheral markets surrounding Olympia's downtown core.

The current Thurston County office inventory totals just under 9.7 million sq ft of space among 860 buildings (illustrating the small average size of office buildings in the market). The market's current office vacancy rate is reported by CoStar for Q3 of 2016 is 6.8%, which is down from 8.9% a year ago and highs of 11.50% two years ago. After increasing from a low of 8.6% in the 4<sup>th</sup> quarter of 2009 to a high of 11.6% in the 3rd quarter of 2010, vacancy fluctuated modestly through year-end 2014 before beginning to fall.

Although not listed within Costar, there is currently one project under construction, an 81,065 sq ft building in Tumwater that is 65% pre-leased to the Department of Revenue. Other than this, there has only been one other delivery at 16,700 sq ft in the last 3 years, which was a build-to-suit in Lacey. Even in the stronger markets, office sales in the Thurston County market have been limited. Some of the recent sales have still been distressed to some degree including high vacancy and/or seller motivation. Market activity has increased in core asset properties with some funneling down to suburban markets including the local Thurston County investor market.

### **Tumwater/South Olympia Office Submarket**

An historical overview of the subject's Lacey office submarket is shown in the preceding table. The current submarket inventory totals just over 2M sq ft of office space in 135 buildings. The only recent construction within this submarket was the Q2 2016 addition of a 16,700 sq ft, build-to-suit office for BioLife Plasma. The lack of new construction as well as the final consolidation efforts from certain government agencies in the market will help this market begin to recover.

### **MARKET VACANCY AND ABSORPTION**

The submarket's vacancy rate is reported at 12.90% as of Q3 of 2016, which is well above the office vacancy for Thurston County as a whole. Office vacancy quickly rose from a low point of 7.0% in Q3 of 2007 up to 13.50% by the end of 2008. This was driven by the start of the national recession as well as the delivery of just over 100k sq ft in 2008. From that point through 2013, vacancy mainly hovered between 13% to 15% before

peaking at 19.40% in Q3 of 2014. Since 2008, no significant office additions have been made to the submarket. Absorption remained mixed with significant losses in 2012 and 2014, and moderate gains made in 2013. More recently the submarket absorbed 12,589 sq ft in 2015 and 73,618 sq ft YTD in 2016. This absorption has brought vacancy down about 300 basis points from a year ago.

However, it is important to note that within the subject's immediate neighborhood (bounded by Pacific Ave., College St. SE, I-5, and Sleater Kinney Rd. SE) accounts for much of this vacancy. This pocket represents about 52% of Lacey's office inventory, but accounts for about 88% of the submarket vacancy.

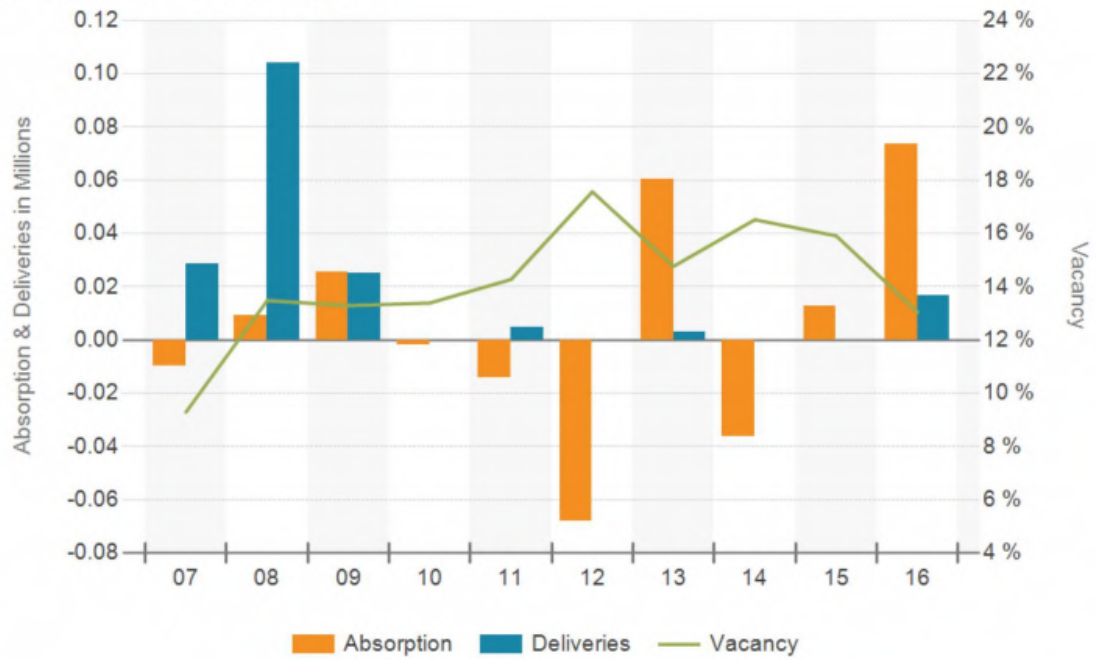
#### **RENTAL RATES**

Average reported rental rates around \$18/sq ft prior to the recession trended quickly downward during 2009, leveling off around \$14 to \$15/sq ft. Since then rates have remained largely flat with slight increases towards \$16/sq ft over the last two years. With this said, rental rates vary greatly depending on condition and quality of office. Average rates are often impacted by smaller buildings with offset locations and some inefficiencies. The newer, good quality office buildings are leasing at higher full service office rates typically between \$22.00 and \$28.00/sq ft.

#### **Summary**

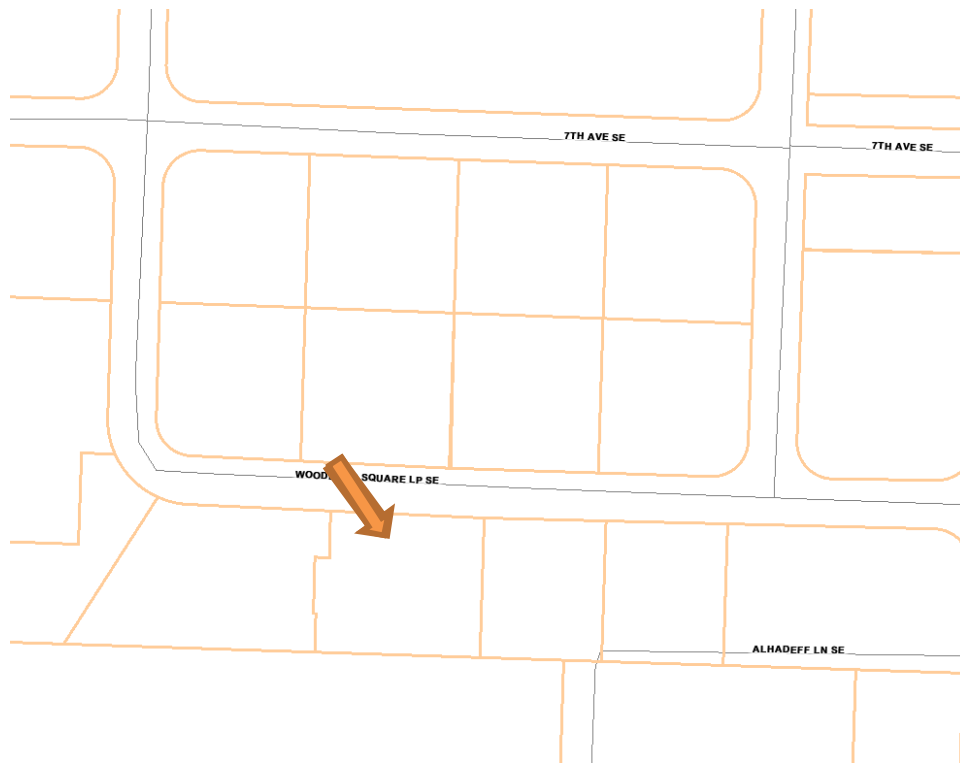
State government consolidation and downsizing had an adverse impact on the Thurston County office market, particularly between 2010 and early 2014, much of which occurred in Downtown Olympia. There has been some recent tightening and a lack of new construction has shown some modestly improving signs for the office market both in Thurston County and marginal improvements within the Lacey submarket. Although, properties in the subject's immediate office node are still seeing slow leasing activity and a vacancy rate of almost 22% (12.90% within the greater Lacey submarket).

### Absorption, Deliveries, Vacancy



Source: CoStar – November 2016

# Property Description



Parcel Map

# Property Description

## Introduction

The subject is a two-story office building located in Lacey's Woodland District. The 1986, reinforced-concrete structure contains 18,104 sq ft of rentable area.

## Identity of Property

Location: 637 Woodland Square Loop SE

City: Lacey

Parcel Numbers: 84990001200

Liens and Encumbrances: We have been provided with a Title Report prepared by First American Title Insurance Company and dated September 2, 2016. Typical utility easements are noted in the report. Our evaluation presumes the site is absent of significant easements or encumbrances that would impact the market value of the subject.

The improvements are fully leased by a single, government tenant.

## SIZE & SHAPE

The subject's parcel forms a functional, rectangular shape, located mid-block along Woodland Sq. Loop SE. According to the Thurston County Assessor, the subject contains 0.83 acres of land area.

## STREETS, ACCESS & EXPOSURE

Woodland Sq. Loop SE is a two-way street with a single lane of traffic in each direction as well as on-street parking. It is improved with curbs and lighted sidewalks. Primary access to the subject's office node is via College St. SE to the east, but additional access is available through side streets to the south and west.

Accessibility is good given its access to local arterials and I-5 to the north. Visibility is average, as it has no frontage along local arterials.

## TOPOGRAPHY & SOIL CONDITIONS

The site is level and at-grade with neighboring parcels and roads.

We were not provided with any soils reports and we assume the soils are adequate to support any building improvements that might represent the highest and best use of the site. No obvious signs of settling were noted upon inspection; however, this should not be construed as a guarantee that the soils are adequate to support its current use.

**UTILITIES** All normal public utilities are available to the subject site.

**ASSESSOR'S INFORMATION** The assessed value is 54% of our value conclusion of \$3,100,000.

**Real Estate Tax Analysis**

APN # 84990001200

Year	Assessed Values			Taxes & Fees			Total	Levy Rate
	Total	Land	Building	Taxes	Weed	Cons		
2016	\$1,668,600	\$321,700	\$1,346,900	\$21,085.24	\$4.73	\$5.00	\$21,094.97	\$12.636486
2015	\$1,557,600	\$340,600	\$1,217,000	\$20,301.46	\$3.73	\$5.00	\$20,310.19	\$13.033808

**ZONING** The subject is zoned Urban Neighborhood 1 within the Woodland District zoning, dictated by the City of Lacey. This is intended to encourage a diversity of uses in the city core that are pedestrian and transit friendly. A variety of commercial uses are permitted, focused on service, medical, educational, office, and locally-serving retail. Multi-family, residential uses are also permitted. No maximum FAR is specified and required office parking is 1.5 to 2 stalls per 1,000 sq ft depending on customer service components.

While the subject could benefit from additional parking, it appears that its current improvements are legally conforming to current zoning.

**CONCLUSION** In summary, the site characteristics are similar to other properties in the immediate vicinity. There are no site conditions known to the appraisers that have a negative impact on the value or marketability of the subject site.

**Description of Improvements**

**INTRODUCTION** The site is improved with an average quality, Class "B" office building. It is currently in average condition and includes 18,104 sq ft of rentable area.

**PHYSICAL AGE** The building was constructed in 1986, and it has an estimated effective age of 20 years.

**FRAMING & EXTERIOR** The foundation is poured in-place concrete slab on grade. The roof is a flat membrane that supports the subject's rooftop HVAC units. The structure features a mostly brick exterior with moderate window exposure and minor, pre-fab metal covered entryways.

**INTERIOR FINISH** The subject's two floors reflect a functional, yet slightly older office build-out. Primary entrances are located at the east and west ends of the building, but elevator access only permitted to the west. Each floor is supported by private offices, lunch/staff areas, conference rooms, open cubical space, as well as bathrooms.

Interior finishes include painted gypsum wallboard, ceiling tiles, fluorescent lighting, carpet, and vinyl tiles. Heating and cooling is by forced air units with distribution suspending on the ceiling. The building is sprinklered. Although of an older design, the structure is functional and would appeal to a variety of office users.

**SITE IMPROVEMENTS & PARKING** The building sits along Woodland Sq. Loop SE, with improved parking areas wrapping around the remainder of the structure. Parking totals roughly 48 parking stalls, which equates to 2.7 spaces per 1,000 sq ft and exceeds zoning requirements. This ratio includes 9 parking stalls from the parking lot to the east (APN #84990001100) that is under the same ownership as the subject. These additional stalls are not supporting a specific building and are allocated in our appraisal to best support the ownership's portfolio as a whole. This report assumes that a parking easement benefiting the property is in place.

The property features moderate landscaping along the building and street frontage, including a variety of trees and shrubs.

**CONDITION & FUNCTIONAL UTILITY** The building is in average condition and would attract a variety of office users.

# Highest & Best Use

# Highest & Best Use

“Highest & Best Use” is defined by the Appraisal Institute as:

*The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.*

*Source: The Dictionary of Real Estate Appraisal, Sixth Edition. Chicago: Appraisal Institute, 2015.*

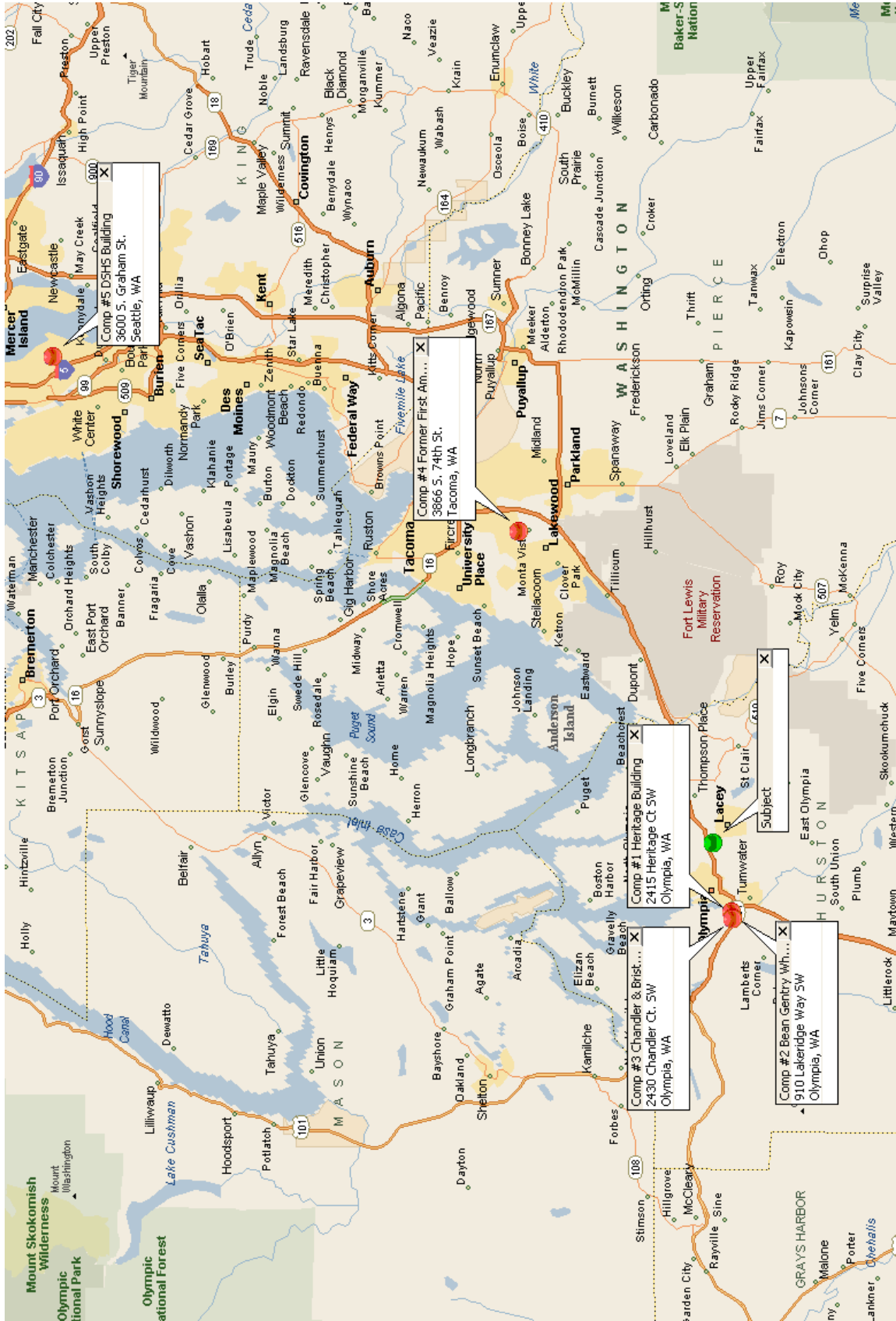
## **As if Vacant**

The subject is zoned Urban Neighborhood 1 within the Woodland District zoning, dictated by the City of Lacey. This is intended to encourage a diversity of uses in the city core that are pedestrian and transit friendly. A variety of commercial uses are permitted, focused on service, medical, educational, office, and locally-serving retail. Multi-family, residential uses are also allowed. No maximum FAR is specified. The subject's size, shape, and topography are sufficiently conducive to support a variety of uses. Surrounding properties are almost exclusively office uses, transitioning to retail further to the west. Recent office development has been limited to a very few owner-user and pre-leased projects, with retail activity increases concentrated in superior retail pockets like Hawk's Prairie. The highest and best use of the site as if vacant is for commercial development, as dictated by market demand and conditions.

## **As Improved**

The subject is a good quality office building, fully leased to a government tenant. Existing improvements are in average condition and, as shown later in this report, contribute significant value to the site; therefore, demolition or conversion are not likely. Due to the layout of the subject improvements and current market conditions, an addition is not feasible and renovation would not result in significant increases in rent. As a result, the highest and best use is for continued office use, “as-is.”

# Sales Comparison Approach



## Sales Comparison Map

## Sales Comparison Photographs

### Comparable 1

Heritage Building  
2415 Heritage Ct. SW  
Olympia, WA



### Comparable 2

Bean Gentry Wheeler  
910 Lakeridge Way SW  
Olympia, WA



### Comparable 3

Chandler & Bristol Court  
2425 Bristol Ct. SW /  
2430 Chandler Ct. SW  
Olympia, WA



## Sales Comparison Photographs

### **Comparable 4**

Former First American Plaza  
3866 S. 74th St.  
Tacoma, WA



### **Comparable 5**

DSHS Building  
3600 S. Graham St.  
Seattle, WA



SALES COMPARISON SUMMARY

No	Name / Location	Year Build	GLA	LTB Ratio	Land	Pkg Ratio	Sale Date	Sale Price	Price/SF	Cap Rate	Buyer / Seller / Source	Comments
1.	Heritage Building 2415 Heritage Ct SW Olympia, WA	1992	Wood	15,339	1.16		Sep-15	\$2,000,000	\$152	NA	Olympic Credit Fund, Inc.	Sale of an older, single-story office building in the Westside submarket of Olympia. Good structure but very dated. Buyer was owner user and significantly renovated building.
		13,195	3.0/Ksf					NA		Angela Bowen <i>Terry Wilson, KM, 360.705.1296</i>		
2.	Bean Gentry Wheeler 910 Lakeridge Way SW Olympia, WA	1986	Masonry	13,939	1.51		Dec-15	\$1,500,000	\$163	NA	Legal Mumbo Jumbo, LLC	Office building near Thurston County Courthouse that sold to an owner-user lawfirm. Two-story over a partial daylight basement lower level.
		9,216	2.7/Ksf					NA		JA Morris Co., LLC <i>Internal Records</i>		
3.	Chandler & Bristol Court 2425 Bristol Ct. SW / 2430 Chandler Ct. SW Olympia, WA	1991/2000	Wood/Masonry	137,314	1.33		Dec-14	\$15,000,000	\$145	\$12.02	Redstone Bristol Court, LP	Sale of two adjacent, single tenant buildings fully leased by gov't entities; one through 2020 and one expiring in 2016.
		103,618	1.7/Ksf					8.30%		Drebrick Investments <i>Craig Wilson, CBRE, 425.462.6922</i>		
4.	Former First American Plaza 3866 S. 74th St. Tacoma, WA	1995	Masonry	47,400	2.10		Feb-15	\$1,950,000	\$86	NA	Acom Two, LLC	Office building in Tacoma that was vacant ATOS and on the market for several years. Purchased by dentist that will occupy 1st floor and lease the remainder. In good condition. Parking is ample with easement on neighboring lot.
		22,624	See Notes		<i>Stabilization</i>	\$450,000	\$20	NA		First American Title Insurance <i>Ben Norbe, KM, 253.722.1410</i>		
5.	DSHS Building 3600 S. Graham St. Seattle, WA	1982; Ren. '09	Masonry	84,506	2.07		Jul-15	\$8,200,000	\$201	\$13.08	North American Chang Jiang 8, LLP	Building was 100% leased to DSHS at time of sale with 5-years remaining on their lease. The two-story structure in South Seattle was renovated in 2009.
		40,738	2.6/Ksf					6.50%		Western Properties, Inc. <i>Patrick Starr, Broker, 360.671.9640</i>		
<div><div>Subject 637 Woodland Sq. Loop SE Lacey, WA</div><div><div>1986</div><div>Masonry</div><div>18,104</div></div><div><div>36,208</div><div>2.00</div><div>2.7/Ksf</div></div><div><div>Appraisal</div><div>Rounded</div></div><div><div>\$2,896,640</div><div>\$2,900,000</div></div><div><div>\$160</div><div>\$160</div></div></div>												

# Sales Comparison Approach

## Introduction

The Sales Comparison Approach is based on the premise that market value of the property is directly related to recent sale prices of competitive properties and the availability of substitute properties with similar utility and desirability. The most similar sales of properties are investigated and compared to the subject in this analysis. These comparables are summarized in the table on the facing page. Photographs and a location map are presented on previous pages.

Five improved sale comparisons were selected that are reasonably similar to the subject, indicating a range in value of \$106/sq ft to \$201/sq ft. These include a mix of government leased office buildings and owner-user transactions due to the smaller size of the subject. These range approximately between 9k and 104k sq ft of rentable area, with the largest sale being a two building acquisition. Building ages vary between 1982 and 2000, with some having additional renovations. Sales dates range from December 2014 to December 2015. Comparable factors analyzed within each sale include sale and market conditions, location, age/condition, LTB/parking ratios, size, function, and tenancy.

The high end of the range (No. 5 at \$201/sq ft) is the July 2015 sale of the DSHS Building in South Seattle. This is a 40,738 sq ft, 1982 vintage structure that was renovated in 2009 and fully occupied by a government tenant with 5-years remaining on their lease. Its good condition and superior positioning in South Seattle indicate lower pricing for the subject.

The low end of the range (No. 4 at \$106/sq ft) is the February 2015 sale of a 22,624 sq ft office building from 1995. It was previously occupied by First American Title Insurance, but it sat vacant for a number of years. It was purchased by a dentist that will occupy the 1<sup>st</sup> floor and lease the remainder to multiple tenants. Stabilization costs of about \$20/sq ft were added to the sale price to arrive at our analysis price of \$106/sq ft. The comparable's high vacancy and strong sale motivation indicate a much higher pricing for the subject.

Sale No. 3 (\$145/sq ft) is the December 2014 purchase of two, single-tenant office buildings in western Olympia along SR-101. The multi-story structures are of similar size as each other, totaling 103,618 sq ft and built in 1991 and 2000. Exposure and access are good, but both suffer from poor parking ratios. One government tenant renewed in July 2014 for 5-years and the other was to expire in May of 2016. The comparable's low

parking ratio, larger size, and older sale date indicate a higher price for the subject.

The remaining two sales (No. 1 & 2) are owner-user sales in west Olympia. No. 1 (\$152/sq ft) is the September 2015 sale of a single-story, 13,195 sq ft building. It was constructed in 1992, but it was in fair condition and the buyer significantly renovating the structure. The subject would warrant a slightly higher price per square foot.

No. 2 (\$163/sq ft) is the December 2015 sale of a 9,216 sq ft, brick office building from 1986 that features two stories with a partial daylight basement level. It sold to an owner-user law firm and was in good condition at the time of sale. Given the comparable's superior condition/construction and location, the subject would warrant slightly lower pricing.

**Conclusion**

Considering all factors, the market value of the leased fee interest in the subject as of January 1, 2017 is estimated at:

$$18,104 \text{ sq ft} \times \$160/\text{sq ft} = \$2,900,000 \text{ (Rounded)}$$

# Income Capitalization Approach

# Income Capitalization Approach

## Introduction

The Income Capitalization Approach is based on the precept that an income-producing property is typically purchased as an investment, and therefore the earning power of the asset is critical to understanding the property's value. This approach is developed by analyzing the property's income and expenses over the following base year to forecast the most probable net operating income (NOI). The estimated NOI is then capitalized at a market-derived capitalization rate to arrive at a price an investor might be willing to pay for the property. Data used in this approach includes a mixture of general and specific information resources. There are two methods typically used to indicate value: direct capitalization and yield capitalization (discounted cash flow analysis). In this case, direct capitalization is the most relevant and therefore used in this report.

## Existing Lease Encumbrance (Contract Rent)

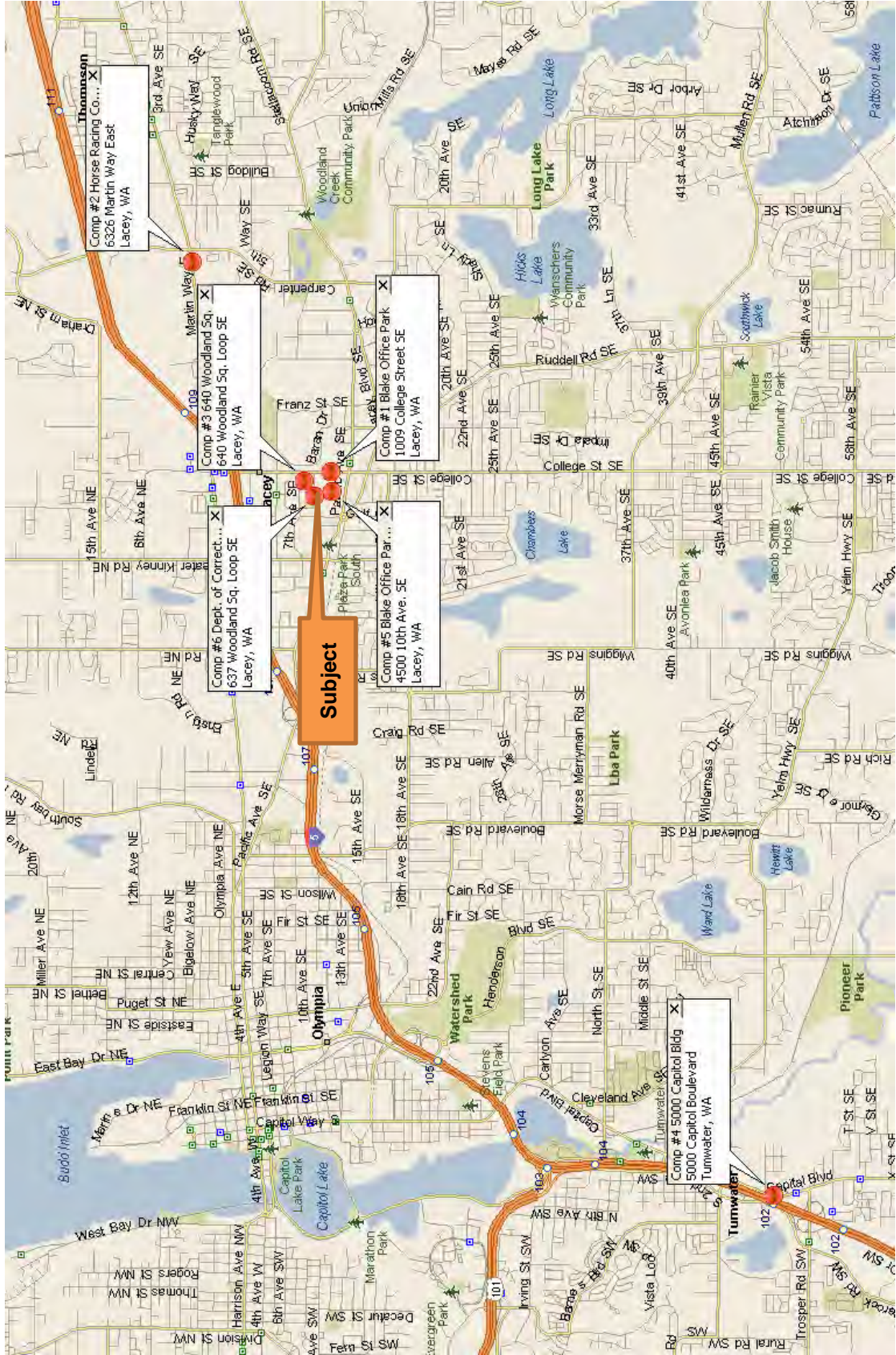
The subject is fully leased to the Department of Corrections. They signed a lease renewal in 2014 through May of 2019 at a flat rate of \$18.40/sq ft on a modified gross basis. The tenant pays utilities, garbage, and janitorial.

### LEASE SUMMARY

Tenant	Size	% of RA	Current Term		Rental Rates			Comments
			Begin	End	Begin	Monthly	\$/sf	
Dept. of Corrections 637 Woodland	18,104	100.00%	Jun-14	May-19	Jun-14	\$27,759.50	\$18.40 Flat	5-Year government lease renewal with no free rent provided Tenant pays for utilities, garbage and janitorial LL had to complete basic property maintenance

## Comparable Rental Data

In order to determine market rent for the subject property, we have researched the subject's submarket for recent listings and signed leases. We have selected rent comparables from similar office properties, including the most recent leasing activity within the subject.



# Rent Comparison Map

## Rent Comparison Photographs

### Comparable R-1

Blake Office Park  
1009 College St. SE  
Lacey, WA



### Comparable R-2

Horse Racing Commission  
6326 Martin Way East  
Lacey, WA



### Comparable R-3

640 Woodland Sq. Bldg  
640 Woodland Sq. Loop SE  
Lacey, WA



## Rent Comparison Photographs

**Comparable R-4**  
5000 Capitol Building  
5000 Capitol Blvd.  
Tumwater, WA



**Comparable R-5**  
Blake Office Park - Bldg B  
4500 10th Ave. SE  
Lacey, WA



**Comparable R-6**  
Dept. of Corrections Building  
640 Woodland Sq. Loop SE  
Lacey, WA



SUMMARY OF RENT COMPARABLES

No	Name/Address	Age RA (SF) Stories	Tenant Area (SF)	Term	Start Date	Base Year Rent Ann. Escalations	Expenses	Tl Allowance Free Rent	Comments/Confirmation
1	Blake Office Park 1009 College Street SE Lacey, WA	1992 60,000 2-Story	16,783	10 Years	Jul-16	\$16.50 Flat	Mod. Gross	Minimal None	5-Year lease extension with tenant paying utilities, garbage, and janitorial expenses. TI work is considered minimal, primarily small building repairs. MG rate of \$16.50/sq ft.
2	Horse Racing Commission 6326 Martin Way East Lacey, WA	1984 9,962 2-Story	18,816	2 Years	Feb-15	\$16.90 Flat	Mod. Gross	Minimal None	2-Year lease extension with tenant paying utilities, garbage, and janitorial expenses. No TI allowance or free rent was provided. Lease to Dept. of Corrections, with leased areas in two adjacent buildings. MG rate of \$16.90/sq ft. <i>Public Lease</i>
3	640 Woodland Sq. Building 640 Woodland Sq. Loop SE Lacey, WA	2003 84,149 3-Story	2,093	5 Years	Sep-16	\$16.33 Flat	Mod. Gross Equiv.	Minimal None	5-Year lease extension with tenant paying only janitorial expenses. TI work is considered minimal, primarily small building repairs. Mod gross equivalent rate about \$16.33. <i>Public Lease</i>
4	5000 Capitol Building 5000 Capitol Blvd. SE Tumwater, WA	1973; Ren. '02 46,080 2-Story	70,449	5 Years	Jul-16	\$16.40 Flat	Mod. Gross Equiv.	\$5.11/sq ft None	5-Year extension that slightly reduces tenant's area and makes it full service lease at \$19.40/sq ft. LL provided \$5.11/sq ft in TI, in addition to curing a number of deferred maintenance items. This includes HVAC work, new carpet/paint, other items that total \$22.48/sq ft. <i>Receivership Lease Files</i>
5	Blake Office Park - Bldg B 4500 10th Ave. SE Lacey, WA	1999 54,788 2-Story	54,788	5 Years	May-17 (Aug. 2016 Renewal)	\$18.41 Flat	Mod. Gross	\$4.14/sq ft None	5-Year extension with tenant paying utilities, garbage, and janitorial expenses. No free rent or renewal options were provided to the tenant. Tenant previously renewed in 2012 at a flat \$17.35/sq ft and executed current renewal in August of 2016 at \$18.41/sq ft. <i>Receivership Lease Files</i>
6	Dept. of Corrections Building 637 Woodland Sq. Loop SE Lacey, WA	1986 18,104 2-Story	18,104	5 Years	Jun-14	\$18.40 Flat	Mod. Gross	Minimal None	5-Year renewal with DSHS paying utilities, garbage, and janitorial expenses. No TI allowance or free rent was provided. <i>Public Lease</i>  Typical 5-year renewal of government lease within single tenant building. Landlord completed minor repairs and maintenance to the property. <i>Receivership Lease Files</i>
Subject 637 Woodland Sq. Loop SE Lacey, WA		1986 18,104 2-Story	18,104		Appraisal	\$18.00 Flat	Mod. Gross		

## **Comparative Analysis**

Rental rates for office properties are often quoted in a variety of gross and modified gross ways, with expenses being reimbursed to different extents. However, the majority of government office leases, including the subject's, are on modified gross terms with the tenant covering utilities, janitorial, and garbage expenses. We analyze the subject and comparables selected based on these same lease terms.

Six recent, government leases within the subject's general submarket indicate modified gross rates of \$16.33/sq ft to \$18.41/sq ft with no escalations. The rent comparables reflect terms of two to ten years with no free rent. TI allowances are mostly basic repairs and maintenance, typical of government leases.

The high end of the range is marked by a 46,080 sq ft lease in Tumwater, signed in late 2016 (No. 4 at \$18.41/sq ft). The Office of the Insurance Commissioner signed a 5-year renewal for the entirety of a 2-story building from 1973, but heavily renovated in 2002. Based on the comparable's superior market positioning, the subject would warrant a lower rental rate. As office quality increases, especially in areas like Tumwater, rates can easily exceed \$20/sq ft within superior, Class A office product.

The low end of the range (No. 2 at \$16.33/sq ft) represents a September 2016, 2,093 sq ft lease with the Horse Racing Commission. The structure is of an inferior, wood-framed construction and the tenant is on the 2<sup>nd</sup> floor of a somewhat remote retail building. Given its positioning and overall building condition, the subject would warrant a higher rental rate.

Just above this comparable are two leases within a dated, 1992 vintage office building just south of the subject (No. 1 at \$16.50/sq ft and \$16.90/sq ft). The government leases (16,783 sq ft and 18,816 sq ft) included minimal TI and no free rent. Given the condition and quality of the comparable structure, the subject would warrant a higher rental rate.

Two additional leases have been signed in recent years, in close proximity to the subject. In August of 2014, DSHS signed a 5-year renewal for the entirety of a 54,788 sq ft building in the Blake Office Park (No. 6 at \$17.25/sq ft). In July of 2016, the Employment Security Dept. renewed their 70,449 sq ft lease in the subject's sister building to the south at a modified gross equivalent rate of \$16.40/sq ft. The subject would warrant a slightly higher rental rate given its much smaller, single-tenant structure.

## Market Rent Estimate

Overall, the subject would warrant a market rental rate of \$18/sq ft. This is well supported by the selected comparables, including the subject's 2014 renewal at \$18.40/sq ft. Typical, 5-year government lease terms are expected, including no escalations, minimal free rent, and minor TI allowance. The projected contract rent of \$18.40/sq ft/year is within 3% of our market rental rate estimate as shown in the following table.

### Annual Gross Income Estimate

Tenant	%	sq ft	Contract Rent Projection		Market Rent		Contract vs. Market	
			Annual Rent	\$/SF	Annual Rent	\$/SF	Gross	\$/SF
Dept. of Corrections	100.0%	18,104	\$333,114	\$18.40	\$325,872	\$18.00	\$7,242	\$0.40
Occupied	100%	18,104	\$333,114	\$18.40	\$325,872	\$18.00	\$7,242	\$0.40
Vacant	0%							

## Gross Rent Estimate

The contract rent essentially reflects a market rental rate for the subject and is used in the direct capitalization analysis. The projected gross rental income is estimated at \$333,114, or \$18.40/sq ft/year.

## Operating Expenses and Recoveries

As noted previously, contract rent and market rent estimates for the subject are on a modified gross basis with the tenant paying for utilities, garbage collection, and janitorial. Historical expenses at the subject property were not available, so this appraisal relies on expenses from comparable office properties.

Projected real estate taxes are based on 2016 levy rates and 60% of the concluded market value in this report. This results in an expense of \$1.30/sq ft, which is a 2.5% increase from the subject's 2016 tax assessment. Insurance expenses typically range from \$0.20 to \$0.30/sq ft for similar properties, indicating an average expense of \$0.25/sq ft for the subject. Management expenses usually range between 2% and 4% for office properties. Given the subject's size and single-tenant occupancy, a rate of 2.5% is used. Utilities are projected at \$2.00/sq ft based on comparables, but are paid by the tenant. Repair and maintenance costs for similar properties typically range between \$0.75/sq ft and \$1.25/sq ft. Considering the subject's historical maintenance and current condition, these expenses are forecasted at \$1.00/sq ft.

Landscaping and security expenses typically range between \$0.20/sq ft and \$0.60/sq ft, indicating \$0.35/sq ft for the subject given its moderate landscaping. Janitorial expenses are also covered by the tenant, but are projected at comparable averages around \$1.00/sq ft. Miscellaneous

expenses are projected to be minimal at \$0.05/sq ft.

Recoverable expenses total \$116,889 per year or \$6.46/sq ft.

Non-recoverable expenses are also considered in our analysis, which include reserves and other ownership expenses. These are projected at \$0.20/sq ft, bringing total property expenses projected to \$120,510 per year, or \$6.66/sq ft.

**Vacancy &  
Collection Loss**

A 5% vacancy and credit loss allowance is deducted from the estimated potential gross income. This rate is below the current Lacey submarket vacancy rate, but is in-line with how traditional investors would analyze the subject.

**Direct  
Capitalization**

Direct capitalization is the process of converting the estimated stabilized net operating income into market value using a market derived overall capitalization rate. The overall rate is a ratio of net operating income to sales price, usually determined through recent sale comparisons.

Of the comparables used in the Sales Comparison Approach, two reported capitalization rates ranging between 6.50% and 8.30%. The low end reflects the July 2015 sale of a recently renovated building in the superior submarket of South Seattle, fully leased by DSHS. The high end is the December 2014 sale of two government occupied office buildings in Tumwater from 1991 and 2000. These feature poor parking and one building was set to expire in May 2016. Given the subject's current age/condition, size, government tenancy, and remaining lease term, it would warrant a capitalization rate toward the higher end of this range.

We conducted further research for additional sales taking place in the current market for office properties. The best and most current market capitalization rate data are outlined in the following table.

### RECENT CAPITALIZATION RATE SUMMARY

Property Name	City	Age	Bldg SF	Sale Date	Sale Price	Cap Rate
Richland Government Building	Richland	1995	57,937	Sep-15	\$6,300,000	8.49%
Social Security Building	Puyallup	2001	10,000	Sep-15	\$3,210,000	7.22%
DSHS	Seattle	1982; '08	40,738	Jul-15	\$8,200,000	6.50%
Washington Trucking Building	Federal Way	1980	11,500	Jun-15	\$1,300,000	8.30%
Maplewood Office Building	Federal Way	2005	32,074	May-15	\$5,850,000	7.40%
East Campus Corp. Park I	Federal Way	2001	105,807	Mar-15	\$17,900,000	7.50%
Union Ave. Medical Building	Tacoma	1986	19,643	Jan-15	\$3,710,458	7.98%
Chandler & Bristol Buildings	Olympia	1991/2000	103,618	Dec-14	\$15,000,000	8.30%
US Forest Service Building	Olympia	1991; '14	41,822	Dec-14	\$12,025,000	6.98%
Tacoma DSHS	Tacoma	1994	30,000	Oct-14	\$4,500,000	8.93%
King County Housing Building	Tukwila	1974	11,473	Aug-14	\$1,650,000	6.83%
M Parsons Plaza	Tumwater	2008	52,510	Jan-14	\$16,700,100	6.50%
FAA Building	Renton	1990	199,168	Nov-11	\$35,250,000	8.35%
Average						7.64%
Min						6.50%
Max						8.93%

The data show a range of capitalization rates mainly between 6.5% and 9.0% with an average just above 7.5%. Rates below 7% have typically been reserved for buildings with strong, long-term tenancy that benefit from close-in positioning and/or new construction. Into the 7-8% range you find older structures of good condition and solid tenancy, with rates increasing as building age and remaining term/tenant quality falls. Rates then quickly rise above 8% when significant vacancy is present, as leasing activity can be slow and there is still general uncertainty surrounding the submarket. Overall, the subject would warrant a capitalization rate moderately above the middle of this range.

Another source for capitalization rates are investor surveys. On a national basis, the PwC Investor Survey 3<sup>rd</sup> Quarter 2016 reported the overall capitalization rate range for the Seattle Office Market at 4.5% to 8.00%. The average is 5.81%, down from 6.18% a year ago and 6.71% three years ago. Overall, rates in the Puget Sound Region are trending slightly higher than national rates.

Based upon all the above information and considering the condition of the subject property, an appropriate overall capitalization rate for the subject property is a range of 7.75% to 8.25%.

A summary of the direct capitalization analysis is shown on the following page:

## Summary of Direct Capitalization 637 Woodland Sq. Loop SE

<b>Appraiser's Forecast</b>			
<b>INCOME</b>	<b>RA (SF)</b>	<b>FYE Dec '17</b>	<b>\$/SF/Yr</b>
Market Rent	18,104	\$333,114	\$18.40
Reimbursable Expenses	18,104	\$54,312	\$3.00
<b>POTENTIAL GROSS INCOME (PGI)</b>	18,104	\$387,426	
<b>VACANCY &amp; COLLECTION LOSS</b>	5.0%	\$19,371	\$1.07
<b>EFFECTIVE GROSS INCOME (EGI)</b>		\$368,055	\$20.33
<b>EXPENSES</b>			
<b>RECOVERABLE</b>			
Real Estate Taxes		\$23,504	\$1.30
Insurance		\$4,526	\$0.25
Management	2.5%	\$9,201	\$0.51
Utilities		\$36,208	\$2.00
Landscaping & Security		\$6,336	\$0.35
Repairs & Maintenance		\$18,104	\$1.00
Janitorial		\$18,104	\$1.00
Miscellaneous		\$905	\$0.05
Total Recoverable Expenses		\$116,889	\$6.46
<b>NON-RECOVERABLE</b>			
Replacement Reserves		\$2,716	\$0.15
Legal/Accounting		\$905	\$0.05
Total Recoverable Expenses		\$3,621	\$0.20
<b>TOTAL EXPENSES</b>		\$120,510	\$6.66
<b>NET OPERATING INCOME</b>		\$247,545	\$13.67
<b>AS-IS MARKET VALUE</b>			
NOI capitalized at:	7.75%	\$3,194,130	\$176
	8.25%	\$3,000,546	\$166
<b>RECONCILED VALUE</b>	7.99%	\$3,100,000	\$171
<b>(Rounded)</b>			

**Income Approach**      Applying these capitalization rates results in the following market values:  
**Value Conclusion**

7.75%	=	\$3,194,130
8.25%	=	\$3,000,546

We correlate this to a market value toward the middle of the range at \$3,100,000.

# Reconciliation & Final Value Opinion

## Reconciliation & Final Value Estimate

**Final Value Estimate** The approaches to value utilized in this report have indicated the following values for the subject property:

Cost Approach	N/A
Sale Comparison Approach	\$2,900,000
Income Capitalization Approach	\$3,100,000

The Income Capitalization Approach indicates a value somewhat higher than the Sales Comparison Approach, although their values are marginally different and supportive of one another. Considering the subject's characteristics and current lease in place, an investor would be the most likely buyer of the subject. This buyer profile would place emphasis on the Income Capitalization Approach.

**VALUE CONCLUSION** Therefore, sole weight is placed on the Income Capitalization Approach. Based on this analysis, the prospective market value of the leased fee interest in the subject, as of January 1, 2017, is concluded to:

\$3,100,000

# ADDENDUM

# Engagement Letter

September 27, 2016

Scott Switzer of  
Seahawk Portfolio LLC, Mariners Portfolio LLC, WA Portfolio LLC, and Olympia Office LLC  
10900 4<sup>th</sup> Ave., Suite 2300  
Bellevue, WA 98004

*Via e-mail - Scott@snsll.com*

RE: Engagement of Services – Nine Appraisal Reports

Dear Mr. Switzer:

We are pleased to have the opportunity to furnish appraisal services for the nine properties listed below:

- |   |   |
|---|---|
| #1) CD 1-02 FEMA<br>629 Woodland Square Loop, Lacey, WA   | #6) CDC1-15-DSHS<br>640 Woodland Square Loop, Lacey, WA     |
| #2) CDC1-13 Ins Comm<br>5000 Capital - Tumwater, WA       | #7) CDC1-18 DSHS<br>805 S. Mission St., Wenatchee, WA       |
| #3) CDC1 -03 DOC<br>637 Woodland Square Loop, Lacey, WA   | #8) CDC1-16 DSHS<br>1620 Pioneer Way, Moses Lake, WA        |
| #4) CDC 1 - 04 DOL<br>645 Woodland Square Loop, Lacey, WA | #9) CDC1-11 West Seattle<br>8830 25th Ave., SW, Seattle, WA |
| #5) CDC-1-14 Gambling Comm<br>4565 7th Ave. SE, Lacey, WA |   |

The purpose of this letter is to confirm the scope of our services for this engagement, our office practices and policies.

We will prepare the appraisals report using an appraisal process in accordance with the appraisal reporting standards of the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation. It will contain the descriptions, comparative data, analyses, conclusions and exhibits generally considered essential to a documented appraisal report. In addition, our services will comply with and be subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. The intended user of these appraisals is the client. The intended use of these appraisals is for internal purposes of valuing the properties.

The cost of the nine appraisals will be \$ . This fee is based on the scope and timing of our analysis as outlined in this letter. If the scope of analysis changes during the appraisal process, the change could alter the cost. At the stated fee you will receive an electronic copy of the report in PDF format. You may request up to two optional hard copies without additional charge by checking the box by the signature block. Additional hard copies will be available at nominal expense (billed at \$75/hour for administrative staff's time), but it is helpful if we know of your copy requirements at the time we begin work on the project. It is our custom to accept a 50 percent retainer at the time we are authorized to proceed. Payment for our services is due no later than 30 days following delivery of the completed reports. Any past-due accounts bear interest at the rate of 18 percent per year.

Scott Switzer of  
September 27, 2016  
Page 2

Appraisal values will be reported on October 20<sup>th</sup>, 2016 and we anticipate delivery of the reports will be made within six weeks from the date we receive from you a signed copy of this engagement letter authorizing us to proceed.

We do not anticipate that any disputes will arise out of our relationship with you. However, if any dispute should arise about our services or fees or any other aspect of our relationship, we and you agree to seek a fair negotiated resolution. If this is not successful, all disputes shall be resolved by binding arbitration in Seattle under the American Arbitration Association ("AAA") Commercial Arbitration Rules with Expedited Procedures in effect on the date hereof. The arbitrator may award attorneys' fees and costs to the prevailing party.

If you agree with these terms of engagement and wish us to proceed, please sign where indicated below and return the letter together with your check for \$ \_\_\_\_\_ representing the retainer.

Very truly yours,

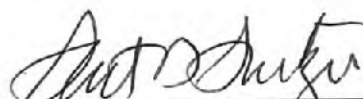
KIDDER MATHEWS



David M. Chudzik, Ph.D., MAI  
Vice President

Check if two hard copy reports are required: ☐

ACCEPTED & AGREED this 27<sup>th</sup> day of September, 2016:

  
Authorized agent for the LLC's

092716 Scott Switzer /sh

# Title Report



## COMMITMENT FOR TITLE INSURANCE

Issued by

### ***FIRST AMERICAN TITLE INSURANCE COMPANY***

First American Title Insurance Company, herein called the Company, for valuable consideration, hereby commits to issue its policy or policies of title insurance, as identified in Schedule A, in favor of the proposed Insured named in Schedule A, as owner or mortgagor of the estate or interest covered hereby in the land described or referred to in Schedule A, upon payment of the premiums and charges therefor; all subject to the provisions of Schedules A and B and to the Conditions and Stipulations hereof.

This Commitment shall be effective only when the identity of the proposed Insured and the amount of the policy or policies committed for have been inserted in Schedule A hereof by the Company, either at the time of the issuance of the Commitment or by subsequent endorsement.

This Commitment if preliminary to the issuance of such policy or policies of title insurance and all liability and obligations hereunder shall cease and terminate six (6) months after the effective date hereof or when the policy or policies committed for shall issue, whichever first occurs, provided that the failure to issue such policy or policies is not the fault of the Company. This Commitment shall not be valid or binding until countersigned by an authorized officer or agent.

IN WITNESS WHEREOF, the Company has caused this commitment to be signed, to become valid when countersigned by an authorized officer or agent of the Company, all in accordance with its By-Laws. This Commitment is effective as of the date shown in Schedule A as "Effective Date."

### ***First American Title Insurance Company***

Dennis J. Gilmore  
President

Jeffrey S. Robinson  
Secretary



***First American Title Insurance Company  
National Commercial Services***

818 Stewart Street, Suite 800, Seattle, WA 98101  
(206)728-0400 - (800)526-7544 FAX (206)448-6348

Lavonne Bowman  
(206)615-3269  
lavbowman@firstam.com

Jessica Bowerman  
(206)615-3049  
jbowerman@firstam.com

To: **Philips International**  
**295 Madison Avenue**  
**New York, NY 10017**

File No.: **NCS-811748-WA1**  
Your Ref No.: **Thurston Co**

Attn: **Robyn Tuerk, Esq.**

**SCHEDULE A**

1. Commitment Date: September 02, 2016 at 7:30 A.M.
2. Policy or Policies to be issued:

	AMOUNT	PREMIUM	TAX
ALTA Standard Owner Policy	\$ To follow	\$	\$

Proposed Insured:  
To follow

3. The estate or interest in the land described on Page 2 herein is **Fee Simple**, and title thereto is at the effective date hereof vested in:  
  
645 Woodland, LLC, a Washington limited liability company as to Lot 10 of Parcel A and CDC Properties I, L.L.C., a Delaware limited liability company as to the remainder
4. The land referred to in this Commitment is described as follows:

The land referred to in this report is described in Exhibit "A" attached hereto.

## EXHIBIT 'A'

### LEGAL DESCRIPTION:

#### PARCEL A:

LOTS 10 AND 11 WOODLAND SQUARE, AS PER PLAT RECORDED IN [VOLUME 20 OF PLATS, PAGES 103](#) AND 104, RECORDS OF THURSTON COUNTY, WASHINGTON.

#### PARCEL B:

PARCELS A AND B OF BOUNDARY LINE ADJUSTMENT NO. SS-BLA-6144 RECORDED UNDER RECORDING NO. [8709180126](#), RECORDS OF THURSTON COUNTY, WASHINGTON.

(BEING LOTS 12, 13 AND 14 WOODLAND SQUARE, AS PER PLAT RECORDED IN [VOLUME 20 OF PLATS, PAGES 103](#) AND 104, RECORDS OF THURSTON COUNTY, WASHINGTON)

#### PARCEL C:

PARCEL A OF BOUNDARY LINE ADJUSTMENT NO. BLA-6196 RECORDED UNDER RECORDING NO. [9010160091](#), RECORDS OF THURSTON COUNTY, WASHINGTON.

(BEING LOTS 31 THROUGH 34 WOODLAND SQUARE, AS PER PLAT RECORDED IN [VOLUME 20 OF PLATS, PAGES 103](#) AND 104, RECORDS OF THURSTON COUNTY, WASHINGTON)

#### PARCEL D:

LOTS 35 AND 36 OF WOODLAND SQUARE, AS PER PLAT RECORDED IN [VOLUME 20 OF PLATS, PAGES 103](#) AND 104, RECORDS OF THURSTON COUNTY, WASHINGTON.

#### PARCEL E:

LOTS 1 THROUGH 6 INCLUSIVE AND LOTS 9 THROUGH 16 INCLUSIVE, ALL IN TROSPER ADDITION TO TUMWATER, AS PER PLAT RECORDED IN [VOLUME 11 OF PLATS, PAGE 107](#), RECORDS OF THURSTON COUNTY, WASHINGTON;

EXCEPT THE SOUTH 18 FEET OF SAID LOT 6;

AND ALSO EXCEPT THOSE PORTIONS OF LOTS 1 AND 16 OF SAID PLAT CONVEYED TO THE CITY OF TUMWATER FOR STREET PURPOSES BY DEEDS RECORDED UNDER RECORDING NOS. 912527 AND 926019;

TOGETHER WITH THOSE PORTIONS OF VACATED MARKET STREET ABUTTING AND ADJOINING SAID LOTS VACATED BY ORDINANCE 515, RECORDED UNDER RECORDING NO. 775791, WHICH UPON VACATION REVERTED TO SAID PREMISES BY OPERATION OF LAW.

**SCHEDULE B - SECTION 1**  
**REQUIREMENTS**

The following are the Requirements to be complied with:

- Item (A) Payment to or for the account of the Grantors or Mortgagors of the full consideration for the estate or interest to be insured.
- Item (B) Proper instrument(s) creating the estate or interest to be insured must be executed and duly filed for record.
- Item (C) Pay us the premiums, fees and charges for the policy.
- Item (D) You must tell us in writing the name of anyone not referred to in this Commitment who will get an interest in the land or who will make a loan on the land. We may then make additional requirements or exceptions

**SCHEDULE B - SECTION 2**  
**GENERAL EXCEPTIONS**

The Policy or Policies to be issued will contain Exceptions to the following unless the same are disposed of to the satisfaction of the Company.

- A. Taxes or assessments which are not shown as existing liens by the records of any taxing authority that levies taxes or assessments on real property or by the public records.
- B. Any facts, rights, interest, or claims which are not shown by the public records but which could be ascertained by an inspection of said land or by making inquiry of person in possession thereof.
- C. Easements, claims of easement or encumbrances which are not shown by the public records.
- D. Discrepancies, conflicts in boundary lines, shortage in area, encroachments, or any other facts which a correct survey would disclose, and which are not shown by public records.
- E. (1) Unpatented mining claims; (2) reservations or exceptions in patents or in acts authorizing the issuance thereof; (3) Water rights, claims or title to water; whether or not the matters excepted under (1), (2) or (3) are shown by the public records; (4) Indian Tribal Codes or Regulations, Indian Treaty or Aboriginal Rights, including easements or equitable servitudes.
- F. Any lien, or right to a lien, for services, labor, materials or medical assistance heretofore or hereafter furnished, imposed by law and not shown by the public records.
- G. Any service, installation, connection, maintenance, construction, tap or reimbursement charges/costs for sewer, water, garbage or electricity.
- H. Defects, liens, encumbrances, adverse claims or other matters, if any, created, first appearing in the public records or attaching subsequent to the effective date hereof but prior to the date the proposed insured acquires of record for value the estate or interest or mortgages thereon covered by this Commitment.

**SCHEDULE B - SECTION 2  
(continued)  
SPECIAL EXCEPTIONS**

1. Lien of the Real Estate Excise Sales Tax and Surcharge upon any sale of said premises, if unpaid. As of the date herein, the excise tax rate for the **City of Tumwater (Parcel E) and Lacey (the remainder)** is at **1.78%**.  
Levy/Area Code: 440 and 241

**For all transactions recorded on or after July 1, 2005:**

- A fee of \$10.00 will be charged on all exempt transactions;
- A fee of \$5.00 will be charged on all taxable transactions in addition to the excise tax due.

2. Matters of extended owner/purchaser coverage which are dependent upon an inspection and an ALTA survey of the property for determination of insurability.

Please submit a copy of the ALTA Survey at your earliest convenience for review. Our inspection will be held pending our review of the ALTA Survey and the result of said inspection will be furnished by supplemental report.

3. Evidence of the authority of the individual(s) to execute the forthcoming document for 645 Woodland, LLC, a Washington limited liability company, copies of the current operating agreement should be submitted prior to closing.
4. Evidence of the authority of the individual(s) to execute the forthcoming document for CDC Properties I, L.L.C., a Delaware limited liability company, copies of the current operating agreement should be submitted prior to closing.
5. Title to vest in an incoming owner whose name is not disclosed. Such name must be furnished to us so that a name search may be made.
6. Unrecorded leaseholds, if any, rights of vendors and security agreement on personal property and rights of tenants, and secured parties to remove trade fixtures at the expiration of the term.
7. Prior to issuance of an extended coverage policy, the Company will require an Owner's Affidavit be completed and submitted to the Company for approval prior to closing. The Company reserves the right to make any additional requirement as warranted.

**The Following Matters Affect Parcel A:**

8. General Taxes for the year 2016.

Tax Account No.:	8499-00-01000
Amount Billed:	\$ 8,719.98
Amount Paid:	\$ 4,359.99
Amount Due:	\$ 4,359.99
Assessed Land Value:	\$ 262,400.00
Assessed Improvement Value:	\$ 426,900.00

(Affects Lot 10)

9. General Taxes for the year 2016.
- |                             |               |
|-----------------------------|---------------|
| Tax Account No.:            | 8499-00-01100 |
| Amount Billed:              | \$ 3,749.42   |
| Amount Paid:                | \$ 1,874.71   |
| Amount Due:                 | \$ 1,874.71   |
| Assessed Land Value:        | \$ 262,350.00 |
| Assessed Improvement Value: | \$ 33,600.00  |

(Affects Lot 11)

10. City liens, if any, for the City of Lacey.  
Note: An inquiry has NOT been made concerning the actual status of such liens.
11. Easement, including terms and provisions contained therein:  
Recording Information: December 6, 1971 under Recording No. [856136](#)  
In Favor of: National Guaranty Properties, Inc., a Washington corporation  
For: Utilities  
Affects: as described therein
12. Restrictions, conditions, dedications, notes, easements and provisions, if any, as contained and/or delineated on the face of the plat of Woodland Square recorded in [Volume 20 of Plats, Pages 103](#) and 104, in Thurston County, Washington.

The easements as reserved on the face of said plat were partially released by documents recorded February 25, 2003 under Recording No. [3506502](#).

13. Easement, including terms and provisions contained therein:  
Recording Information: September 3, 1985 under Recording No. [8509030026](#)  
In Favor of: Puget Sound Power & Light Company  
For: Electric transmission and/or distribution system  
Affects: as described therein
14. Easement, including terms and provisions contained therein:  
Recording Information: September 10, 1987 under Recording No. [8709100109](#)  
In Favor of: Washington Natural Gas Company  
For: Gas pipe lines  
Affects: as described therein
15. Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: CDC Properties I LLC  
Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc., and their respective successors and assigns  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677846, 3677847, 3677848 and 3677849](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788501](#), [3788502](#), [3788503](#), [3788504](#), [3788505](#) and [3788506](#) of Official Records.

Document(s) declaring modifications thereof recorded November 29, 2012 as [4303262](#) of Official Records.

A document recorded March 9, 2016 as [4490575](#) of Official Records provides that Rainier Foreclosure Services Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509671](#) of Official Records.

16. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc., and their respective successors and assigns  
Recorded: October 1, 2004  
Recording Information: [3677850](#) and [3677851](#)

According to the public records, the beneficial interest under the assignment of leases was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788501](#), [3788502](#), [3788503](#), [3788504](#), [3788505](#) and [3788506](#) of Official Records.

(Affects Lot 11)

17. A financing statement recorded October 6, 2004 as Recording No. [3679094](#) of Official Records.  
Debtor: CDC Properties I LLC  
Secured party: Merrill Lynch Mortgage Lending, Inc.

According to the public records, the security interest of the secured party was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by document recorded November 29, 2005 as Recording No. [3788517](#) of Official Records.

An amendment to the financing statement was recorded October 7, 2014 as [4412200](#) of Official Records.

(Affects Lot 11)

18. A lease dated February 25, 2008, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Department of Licensing as lessee, for a term of 5 years recorded April 2, 2008 as [4000163](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lots 10 and 11)

19. A lease dated January 28, 2009, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Department of Corrections as lessee, for a term of 5 years recorded February 26, 2009 as [4062838](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lot 11 and other property)

20. A lease dated July 20, 2012, executed by 645 Woodland, LLC, a Washington limited liability company as lessor and State of Washington, Department of Licensing as lessee, for a term of 5 years recorded October 30, [2012 as 4297374](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lot 10)

21. A lease dated July 20, 2012, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Department of Licensing as lessee, for a term of 5 years recorded October 30, 2012 as [4297375](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lot 11)

22. A lease dated April 4, 2014, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Department of Corrections as lessee, for a term of 5 years recorded September [2, 2014 as 4407084](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects Lot 11 and other property)

**The Following Matters Affect Parcel B:**

23. General Taxes for the year 2016.

Tax Account No.:	8499-00-01400
Amount Billed:	\$ 35,805.83
Amount Paid:	\$ 17,902.91
Amount Due:	\$ 17,902.92
Assessed Land Value:	\$ 383,550.00
Assessed Improvement Value:	\$ 2,449,200.00

(Affects Parcel A)

24. General Taxes for the year 2016.

Tax Account No.:	8499-00-01200
Amount Billed:	\$ 21,094.97
Amount Paid:	\$ 10,547.48
Amount Due:	\$ 10,547.49
Assessed Land Value:	\$ 321,700.00
Assessed Improvement Value:	\$ 1,346,900.00

(Affects Parcel B)

25. City liens, if any, for the City of Lacey.

Note: An inquiry has NOT been made concerning the actual status of such liens.

26. Restrictions, conditions, dedications, notes, easements and provisions, if any, as contained and/or delineated on the face of the plat of Woodland Square recorded in [Volume 20 of Plats, Pages 103](#) and 104, in Thurston County, Washington.

The easements as reserved on the face of said plat were partially released by documents recorded February 25, 2003 under Recording No. [3506502](#).

27. Easement, including terms and provisions contained therein:

Recording Information:	September 3, 1985 under Recording No. <a href="#">8509030026</a>
In Favor of:	Puget Sound Power & Light Company
For:	Electric transmission and/or distribution system
Affects:	as described therein

28. Easement, including terms and provisions contained therein:

Recording Information:	August 18, 1987 under Recording No. <a href="#">8708180149</a>
In Favor of:	Puget Sound Power & Light Company
For:	Electric transmission and/or distribution system
Affects:	as described therein

29. Easement, including terms and provisions contained therein:  
Recording Information: September 10, 1987 under Recording No. [8709100109](#)  
In Favor of: Washington Natural Gas Company  
For: Gas pipe lines  
Affects: Exterior 7 feet of all lots abutting street frontage
30. Terms, covenants, conditions and restrictions as contained in recorded Lot Line Adjustment (Boundary Line Revision) SS-BLA-6144 :  
Recorded: September 18, 1987  
Recording Information: [8709180126](#)
31. The terms and provisions contained in the document entitled Agreement and Waiver of Protest, executed by and between Rainier General, Inc., and City of Lacey, recorded March 30, 1988 as Instrument No. [8803300035](#) of Official Records.
32. Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: CDC Properties I LLC, a Delaware limited liability company  
Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc., and their respective successors and assigns  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677834](#), [3677835](#), [3677836](#) and [3677837](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the registered holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788483](#), [3788484](#), [3788485](#), [3788486](#), [3788487](#) and [3788488](#) of Official Records.

A document recorded March 9, 2016 as [4490577](#) of Official Records provides that Rainier Foreclosure Services, Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509651](#) of Official Records.

(Affects Parcel A)

33. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677838](#) and [3677839](#)
- Assignment of Assignment of Leases and Rents:  
Assignor: Merrill Lynch Mortgage Lending, Inc., a Delaware corporation  
Assignee: Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1  
Recorded: November 29, 2005

Recording Nos.: [3788483, 3788484, 3788485, 3788486, 3788487 and 3788488](#)

(Affects Parcel A)

34. Deed of Trust and the terms and conditions thereof.

Grantor/Trustor: CDC Properties I LLC, a Delaware limited liability company  
Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc., and their respective successors and assigns  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677840, 3677841, 3677842 and 3677843](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788489, 3788490, 3788491, 3788492, 3788493 and 3788494](#) of Official Records.

A document recorded March 9, 2016 as [4490573](#) of Official Records provides that Rainier Foreclosure Services, Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509650](#) of Official Records.

(Affects Parcel B)

35. Assignment of leases and/or rents and the terms and conditions thereof:

Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677844 and 3677845](#)

Assignment of Assignment of Leases and Rents:

Assignor: Merrill Lynch Mortgage Lending, Inc., a Delaware corporation  
Assignee: Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1  
Recorded: November 29, 2005  
Recording Nos.: [3788489, 3788490, 3788491, 3788492, 3788493 and 3788494](#)

(Affects Parcel B)

36. A document entitled "Perpetual Reciprocal Easement, Mutual Maintenance Agreement and Covenant Running with the Land", executed by and between CDC Properties II LLC, a Delaware limited liability company and Blake Office Park LLC, a Washington limited liability company recorded April 14, 2008, as Instrument No. [4002859, 4002860 and 4002861](#) of Official Records.

(Affects Parcel A)

37. A lease dated January 28, 2009, executed by CDC Properties I LLC, a Delaware limited liability company as lessor and State of Washington, Department of Corrections as lessee, for a term of 5 years recorded February 26, 2006 as [4062838](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects said premises and other property)

38. A lease dated August 9, 2011, executed by CDC Properties I LLC, a Delaware limited liability company as lessor and State of Washington, Employment Security Department as lessee, for a term of 5 years recorded August 26, 2011 as [4225692](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

39. A lease dated April 4, 2014, executed by CDC Properties I LLC, a Delaware limited liability company as lessor and State of Washington, Department of Corrections as lessee, for a term of 5 years recorded September 2, 2014 as [4407084](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects said premises and other property)

**The Following Matters Affect Parcel C:**

40. General Taxes for the year 2016.

Tax Account No.:	8499-00-03100
Amount Billed:	\$ 76,519.23
Amount Paid:	\$ 38,259.61
Amount Due:	\$ 38,259.62
Assessed Land Value:	\$ 342,150.00
Assessed Improvement Value:	\$ 5,712,500.00

(Affects Lot 31)

41. General Taxes for the year 2016.

Tax Account No.:	8499-00-03200
Amount Billed:	\$ 5,205.21
Amount Paid:	\$ 2,602.60
Amount Due:	\$ 2,602.61
Assessed Land Value:	\$ 342,150.00
Assessed Improvement Value:	\$ 69,000.00

(Affects Lot 32)

42. General Taxes for the year 2016.

Tax Account No.:	8499-00-03300
Amount Billed:	\$ 5,568.50
Amount Paid:	\$ 2,784.25
Amount Due:	\$ 2,784.25
Assessed Land Value:	\$ 373,000.00
Assessed Improvement Value:	\$ 66,900.00

(Affects Lot 33)

43. General Taxes for the year 2016.

Tax Account No.:	8499-00-03400
Amount Billed:	\$ 5,425.71
Amount Paid:	\$ 2,712.85
Amount Due:	\$ 2,712.86
Assessed Land Value:	\$ 373,000.00
Assessed Improvement Value:	\$ 55,600.00

(Affects Lot 34)

44. City liens, if any, for the City of Lacey.

Note: An inquiry has NOT been made concerning the actual status of such liens.

45. Restrictions, conditions, dedications, notes, easements and provisions, if any, as contained and/or delineated on the face of the plat of Woodland Square recorded in [Volume 20 of Plats, Pages 103](#) and 104, in Thurston County, Washington.

The easements as reserved on the face of said Plat were partially released by documents recorded February 25, 2003 under Recording No. [3506502](#).

46. Easement, including terms and provisions contained therein:  
Recording Information: September 3, 1985 under Recording No. [8509030026](#)  
In Favor of: Puget Sound Power & Light Company  
For: Electric transmission and/or distribution system  
Affects: as described therein
47. Easement, including terms and provisions contained therein:  
Recording Information: September 10, 1987 under Recording No. [8709100109](#)  
In Favor of: Washington Natural Gas Company  
For: Gas pipe lines  
Affects: as described therein
48. Terms, covenants, conditions and restrictions as contained in recorded Lot Line Adjustment (Boundary Line Revision) BLA No. BLA - 6196 :  
Recorded: October 16, 1990  
Recording Information: [9010160091](#)
49. Easement, including terms and provisions contained therein:  
Recording Information: June 17, 1999 under Recording No. [3237665](#)  
In Favor of: City of Lacey  
For: Utilities  
Affects: as described therein
50. A lease dated April 30, 2001, executed by Capital Development Company as lessor and State of Washington, Gambling Commission as lessee, for a term of 10 years recorded June 6, 2001 as Recording No. [3357438](#) of Official Records.
- Said lease, among other things provides for an option to renew for a period of 1 additional five year term.
- Document(s) declaring modifications thereof recorded as [3515647](#), [3695550](#), [3702397](#) and [3745306](#) of Official Records.
51. Easement, including terms and provisions contained therein:  
Recording Information: August 17, 2001 under Recording No. [3373010](#)  
In Favor of: City of Lacey  
For: Utilities  
Affects: as described therein
52. Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: CDC Properties I LLC, a Delaware limited liability company

Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc.  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677822, 3677823, 3677824 and 3677825](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005- MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788495, 3788496, 3788497, 3788498, 3788499 and 3788500](#) of Official Records.

A document recorded March 9, 2016 as [4490578](#) of Official Records provides that Rainier Foreclosure Services Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509652](#) of Official Records.

53. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC., a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677826 and 3677827](#)

Assignment of Assignment of Leases and Rents and Security Deposits:  
Assignor: Merrill Lynch Mortgage Lending, Inc.  
Assignee: Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005- MCP1  
Recording Date: November 29, 2005  
Recording Nos: [3788495, 3788496, 3788497, 3788498, 3788499 and 3788500](#)

54. Subordination, non-disturbance and attornment agreements:  
Between Merrill Lynch Mortgage Lending, Inc.  
And CDC Properties I, LLC  
Recorded February 16, 2005  
Recording Nos.: [3709712 and 3709713](#)

55. A lease dated November 30, 2005, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Department of Services for the Blind, acting through the Department of General Administration as lessee, for a term of 5 years, 7 months recorded March 8, 2006 as Recording No. [3813420](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

56. A lease dated November 30, 2005, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Department of Social and Health Services, acting through the Department of General Administration as lessee, for a term of 5 years & 7 months recorded March 8, 2006 as Recording No. [3813421](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

57. A lease dated August 18, 2006, executed by CDC Properties I, LLC and CDC Properties II, LLC., a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Department of Early Learning, acting through the Department of General Administration as lessee, for a term of 5 years recorded September 6, 2006 as Recording No. [3862862](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

58. A lease dated August 18, 2006, executed by CDC Properties I, LLC and CDC Properties II, LLC as lessor and State of Washington Department of Early Learning as lessee, for a term of 5 years recorded September 20, 2006 as [3866708](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises and other property)

Document(s) declaring modifications thereof recorded September 13, 2007 as [3957547](#) of Official Records.

59. A lease dated October 6, 2006, executed by CDC Properties I, LLC., a Delaware limited liability company, its heirs, executors, administrators, successors, and assigns as lessor and The State of Washington, Department of Revenue, acting through the Department of General Administration as lessee, for a term of 5 years recorded January 8, 2007 as Recording No. [3893390](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

60. A lease dated March 28, 2007, executed by CDC Properties I, LLC and CDC Properties II, LLC., its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Department of Social and Health Services, acting through the Department of General Administration as lessee, for a term of 5 years recorded April 26, 2007 as Recording No. [3921776](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

61. A lease dated July 20, 2007, executed by CDC Properties I, L.L.C., a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953398](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

62. A lease dated July 20, 2007, executed by CDC Properties I, L.L.C., a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953399](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

63. A lease dated July 20, 2007, executed by CDC Properties I, L.L.C., a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953400](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

64. A lease dated July 19, 2007, executed by CDC Properties I, LLC, a Delaware limited liability company and CDC Properties II, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors and assigns as lessor and The State of Washington, Health Care Authority, acting through the Department of General Administration as lessee, for a term of 5 years recorded September 18, 2007 as Recording No. [3958584](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of 1 additional period of 5 years.

Affects: The land and other property.

Document(s) declaring modifications thereof recorded March 3, 2009 as [4064210](#) of Official Records.

65. A lease dated March 10, 2009, executed by State of Washington, Health Care Authority as lessor and State of Washington, Employment Security Department as lessee, for a term of 3 years recorded April 23, 2009 as [4076435](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises and other property)

66. A lease dated May 21, 2009, executed by CDC Properties I, LLC as lessor and State of Washington, Sentencing Guidelines Commission as lessee, for a term of 5 years recorded June 18, 2009 as [4091170](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises)

67. A lease dated June 9, 2010, executed by CDC Properties I, LLC as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 5 years recorded July 20, 2010 as [4160983](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises and other property)

Document(s) declaring modifications thereof recorded April 18, 2011 as [4206949](#) of Official Records.

68. A lease dated August 9, 2011, executed by CDC Properties I, LLC as lessor and State of Washington, Employment Security Department as lessee, for a term of 5 years recorded August 26, 2011 as [4225692](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises and other property)

69. A lease dated December 13, 2011, executed by CDC Properties I, LLC as lessor and State of Washington, Department of Services for the Blind as lessee, for a term of 5 years recorded May 29, 2012 as [4268098](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises)

70. A lease dated March 2, 2012, executed by CDC Properties I, LLC as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 5 years recorded May 29, 2012 as [4268100](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises)

71. A lease dated June 4, 2014, executed by CDC Properties I, LLC as lessor and State of Washington, Department of Services for the Blind as lessee, for a term of 5 years recorded August 11, 2014 as [4404014](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

(Affects a portion of said premises)

72. A lease dated September 16, 2014, executed by State of Washington, Employment Security Department as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 2 years recorded November 19, 2014 as [4417955](#) of Official Records.

(Affects a portion of said premises and other property)

**The Following Matters Affect Parcel D:**

73. General Taxes for the year 2016.

Tax Account No.:	8499-00-03500
Amount Billed:	\$ 5,094.01
Amount Paid:	\$ 2,547.00
Amount Due:	\$ 2,547.01
Assessed Land Value:	\$ 342,150.00
Assessed Improvement Value:	\$ 60,200.00

(Affects Lot 35)

74. General Taxes for the year 2016.

Tax Account No.:	8499-00-03600
Amount Billed:	\$ 89,839.35
Amount Paid:	\$ 44,919.67
Amount Due:	\$ 44,919.68
Assessed Land Value:	\$ 342,150.00
Assessed Improvement Value:	\$ 6,766,600.00

(Affects Lot 36)

75. City liens, if any, for the City of Lacey.

Note: An inquiry has NOT been made concerning the actual status of such liens.

76. Restrictions, conditions, dedications, notes, easements and provisions, if any, as contained and/or delineated on the face of the plat of Woodland Square recorded in [Volume 20 of Plats, Pages 103](#) and 104, in Thurston County, Washington.

The easements as reserved on the face of said Plat were partially released by documents recorded February 25, 2003 under Recording No. [3506502](#).

77. Easement, including terms and provisions contained therein:

Recording Information:	September 3, 1985 under Recording No. <a href="#">8509030026</a>
In Favor of:	Puget Sound Power & Light Company, a Washington corporation
For:	Electric transmission and/or distribution system
Affects:	as described therein

78. Easement, including terms and provisions contained therein:

Recording Information:	September 10, 1987 under Recording No. <a href="#">8709100109</a>
In Favor of:	Washington Natural Gas Company, its successors and assigns
For:	Gas pipe lines
Affects:	as described therein

79. Easement, including terms and provisions contained therein:  
Recording Information: June 17, 1999 under Recording No. [3237665](#)  
In Favor of: City of Lacey, a municipal corporation  
For: Utilities  
Affects: as described therein
80. Easement, including terms and provisions contained therein:  
Recording Information: March 2, 2000 under Recording No. [3281842](#)  
In Favor of: Puget Sound Energy, Inc., a Washington corporation  
For: Transmission, distribution and sale of gas and electricity  
Affects: (Lot 36) as described therein
81. Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: CDC Properties I LLC  
Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc.  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677816, 3677817, 3677818 and 3677819](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788507, 3788508, 3788509, 3788510, 3788511 and 3788512](#) of Official Records.

A document recorded March 9, 2016 as [4490574](#) of Official Records provides that Rainier Foreclosure Services Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509649](#) of Official Records.

82. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677820 and 3677821](#)

Assignment of Assignment of Leases and/or Rents:

Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Wells Fargo Bank, N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1  
Recorded: November 29, 2005  
Recording Nos.: [3788507, 3788508, 3788509, 3788510, 3788511 and 3788512](#)

83. A lease dated July 20, 2007, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors, and assigns as lessor and State of Washington, Employment Security Department, acting through the Department of General

Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953398](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of an additional term of 5 years.

Affects: The land and other property.

84. A lease dated July 20, 2007, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors, and assigns as lessor and State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953399](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of an additional term of 5 years.

Affects: The land and other property.

85. A lease dated July 20, 2007, executed by CDC Properties I, LLC, a Delaware limited liability company, its heirs, executors, administrators, successors, and assigns as lessor and State of Washington, Employment Security Department, acting through the Department of General Administration as lessee, for a term of 5 years recorded August 27, 2007 as Recording No. [3953400](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of an additional term of 5 years.

Affects: The land and other property.

86. A lease dated June 9, 2010, executed by CDC Properties I, LLC and CDC Properties II, LLC as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 5 years recorded July 20, 2010 as [4160983](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

Affects: The land and other property.

Document(s) declaring modifications thereof recorded April 18, 2011 as [4206949](#) of Official Records.

87. A lease dated August 9, 2011, executed by CDC Properties I, LLC, a Delaware limited liability company as lessor and State of Washington, Employment Security Department as lessee, for a term of 5 years recorded August 26, 2011 as [4225692](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year term.

Affects: The land and other property.

88. A lease dated September 16, 2014, executed by State of Washington, Employment Security Department as lessor and State of Washington, Department of Social and Health Services as lessee, for a term of 2 years recorded November 19, 2014 as [4417955](#) of Official Records.

Affects: The land and other property.

**The Following Matters Affect Parcel E:**

89. General Taxes for the year 2016.  
Tax Account No.: 8040-00-00100  
Amount Billed: \$ 95,406.23  
Amount Paid: \$ 47,703.11  
Amount Due: \$ 47,703.12  
Assessed Land Value: \$ 955,950.00  
Assessed Improvement Value: \$ 6,086,200.00
90. City liens, if any, for the city of Lacey.  
Note: An inquiry has NOT been made concerning the actual status of such liens.
91. Easement, including terms and provisions contained therein:  
Recording Information: [592302](#)  
In Favor of: Puget Sound Power & Light Company  
For: Electric transmission and/or distribution system  
Affects: as described therein
92. Easement, including terms and provisions contained therein:  
Recording Information: [679183](#)  
In Favor of: Puget Sound Power & Light Company  
For: Electric transmission and/or distribution system  
Affects: as described therein
93. The terms, provisions and easement(s) contained in the document entitled "Easement Agreement" recorded March 21, 1986 as Recording No. [8603210099](#) of Official Records.
94. A lease dated January 15, 2002, executed by Capital Development Company, for its heirs, executors, administrators, successors, and assigns as lessor and The State of Washington Office of the Insurance Commissioner, acting through the Department of General Administration as lessee, for a term of 12 years recorded February 27, 2002 as Recording No. [3415237](#) of Official Records.  
  
Said lease, among other things provides for an option to renew for a period of an additional 5 years.  
  
Document(s) declaring modifications thereof recorded October 14, 2002 and February 17, 2005 as [3468958](#) and [3709860](#) of Official Records.
95. Easement, including terms and provisions contained therein:  
Recording Information: May 21, 2002 under Recording No. [3435511](#)  
In Favor of: City of Tumwater  
For: Water main  
Affects: 15 foot wide strips

96. Deed of Trust and the terms and conditions thereof.  
Grantor/Trustor: CDC Properties I LLC  
Grantee/Beneficiary: Merrill Lynch Mortgage Lending, Inc.  
Trustee: First American Title Company  
Amount: \$43,257,500.00  
Recorded: October 1, 2004  
Recording Information: [3677828, 3677829, 3677830 and 3677831](#)

According to the public records, the beneficial interest under the deed of trust was assigned to Wells Fargo Bank, N.A., as Trustee for the registered holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass- Through Certificates, Series 2005-MCP1 by assignment recorded November 29, 2005 as Recording Nos. [3788477, 3788478, 3788479, 3788480, 3788481 and 3788482](#) of Official Records.

A document recorded March 9, 2016 as [4490576](#) of Official Records provides that Rainier Foreclosure Services Inc. was substituted as trustee under the deed of trust.

A notice of trustee's sale recorded July 5, 2016 as [4509645](#) of Official Records.

97. Assignment of leases and/or rents and the terms and conditions thereof:  
Assignor: CDC Properties I LLC, a Delaware limited liability company  
Assignee: Merrill Lynch Mortgage Lending, Inc.  
Recorded: October 1, 2004  
Recording Information: [3677832 and 3677833](#)

Assignment of Assignment of Leases and Rents:

Assignor: Merrill Lynch Mortgage Lending, Inc.  
Assignee: Wells Fargo Bank, N.A., as Trustee for the registered holders of Merrill Lynch Mortgage Trust 2005-MCP1, Commercial Mortgage Pass-Through Certificates, Series 2005-MCP1  
Recording Nos: [3788477, 3788478, 3788479, 3788480, 3788481 and 3788482](#)  
Recording Date: November 29, 2005

98. Subordination, non-disturbance and attornment agreements:  
Between Merrill Lynch Mortgage Lending, Inc.  
And CDC Properties I, LLC  
Recorded February 16, 2005  
Recording Nos.: [3709708 and 3709709](#)

99. A lease dated April 5, 2012, executed by CDC Properties I LLC, a Delaware limited liability company as lessor and The State of Washington Office of the Insurance Commissioner, acting through the Department of Enterprise services as lessee, for a term of 5 years recorded may 29, 2012 as [4268097](#) of Official Records.

Said lease, among other things provides for an option to renew for a period of one 5-year period.

<b>INFORMATIONAL NOTES</b>
----------------------------

- A. Effective January 1, 1997, and pursuant to amendment of Washington State Statutes relating to standardization of recorded documents, the following format and content requirements must be met. Failure to comply may result in rejection of the document by the recorder.
- B. Any sketch attached hereto is done so as a courtesy only and is not part of any title commitment or policy. It is furnished solely for the purpose of assisting in locating the premises and First American expressly disclaims any liability which may result from reliance made upon it.
- C. The description can be abbreviated as suggested below if necessary to meet standardization requirements. The full text of the description must appear in the document(s) to be insured.
- Lots 10-14, 31-36, Woodland Square, [Vol. 20, P. 103](#) & 104  
Parcels A-B BLA No. SS-BLA-6144, Rec. [8709180126](#)  
Parcel A, BLA No. BLA - 6196, Rec. [9010160091](#)  
Ptn Lots 1-6 & 9-16, Trosper Add., [Vol. 11, P. 107](#)
- D. A fee will be charged upon the cancellation of this Commitment pursuant to the Washington State Insurance Code and the filed Rate Schedule of the Company.

**END OF SCHEDULE B**



***First American Title Insurance Company***  
***National Commercial Services***

**COMMITMENT**  
**Conditions and Stipulations**

1. The term "mortgage" when used herein shall include deed of trust, trust deed, or other security instrument.
2. If the proposed Insured has or acquires actual knowledge of a defect, lien, encumbrance, adverse claim or other matter affecting the estate or interest or mortgage thereon covered by this Commitment, other than those shown in Schedule B hereof, and shall fail to disclose such knowledge to the Company in writing, the Company shall be relieved from liability for any loss or damage resulting from any act or reliance hereon to the extent the Company is prejudiced by failure to so disclose such knowledge. If the proposed Insured shall disclose such knowledge to the Company, or if the Company otherwise acquires actual knowledge of any such defect, lien, encumbrance, adverse claim or other matter, the Company at its option, may amend Schedule B of this Commitment accordingly, but such amendment shall not relieve the Company from liability previously incurred pursuant to paragraph 3 of these Conditions and Stipulations.
3. Liability of the Company under this Commitment shall be only to the named proposed Insured and such parties included under the definition of Insured in the form of Policy or Policies committed for, and only for actual loss incurred in reliance hereon in undertaking in good faith (a) to comply with the requirements hereof, or (b) to eliminate exceptions shown in Schedule B, or (c) to acquire or create the estate or interest or mortgage thereon covered by this Commitment. In no event shall such liability exceed the amount stated in Schedule A for the Policy or Policies committed for and such liability is subject to the Insuring provisions, exclusion from coverage, and the Conditions and Stipulations of the form of Policy or Policies committed for in favor of the proposed Insured which are hereby incorporated by references, and are made a part of this Commitment except as expressly modified herein.
4. Any claim of loss or damage, whether or not based on negligence, and which arises out of the status of the title to the estate or interest or the lien of the Insured mortgage covered hereby or any action asserting such claim, shall be restricted to the provisions and Conditions and Stipulations of this Commitment.

The First American Corporation  
***First American Title Insurance Company***  
***National Commercial Services***  
**PRIVACY POLICY**

**We Are Committed to Safeguarding Customer Information**

In order to better serve your needs now and in the future, we may ask you to provide us with certain information. We understand that you may be concerned about what we will do with such information particularly any personal or financial information. We agree that you have a right to know how we will utilize the personal information you provide to us. Therefore, together with our parent company, The First American Corporation, we have adopted this Privacy Policy to govern the use and handling of your personal information.

**Applicability**

This Privacy Policy governs our use of the information which you provide to us. It does not govern the manner in which we may use information we have obtained from any other source, such as information obtained from a public record or from another person or entity. First American has also adopted broader guidelines that govern our use of personal information regardless of its source. First American calls these guidelines its Fair Information Values, a copy of which can be found on our website at [www.firstam.com](http://www.firstam.com).

**Types of Information**

Depending upon which of our services you are utilizing, the types of nonpublic personal information that we may collect include:

- Information we receive from you on applications, forms and in other communications to us, whether in writing, in person, by telephone or any other means;
- Information about your transactions with us, our affiliated companies, or others; and
- Information we receive from a consumer reporting agency.

**Use of Information**

We request information from you for our own legitimate business purposes and not for the benefit of any nonaffiliated party. Therefore, we will not release your information to nonaffiliated parties except: (1) as necessary for us to provide the product or service you have requested of us; or (2) as permitted by law. We may, however, store such information indefinitely, including the period after which any customer relationship has ceased. Such information may be used for any internal purpose, such as quality control efforts or customer analysis. We may also provide all of the types of nonpublic personal information listed above to one or more of our affiliated companies. Such affiliated companies include financial service providers, such as title insurers, property and casualty insurers, and trust and investment advisory companies, or companies involved in real estate services, such as appraisal companies, home warranty companies, and escrow companies. Furthermore, we may also provide all the information we collect, as described above, to companies that perform marketing services on our behalf, on behalf of our affiliated companies, or to other financial institutions with whom we or our affiliated companies have joint marketing agreements.

**Former Customers**

Even if you are no longer our customer, our Privacy Policy will continue to apply to you.

**Confidentiality and Security**

We will use our best efforts to ensure that no unauthorized parties have access to any of your information. We restrict access to nonpublic personal information about you to those individuals and entities who need to know that information to provide products or services to you. We will use our best efforts to train and oversee our employees and agents to ensure that your information will be handled responsibly and in accordance with this Privacy Policy and First American's Fair Information Values. We currently maintain physical, electronic, and procedural safeguards that comply with federal regulations to guard your nonpublic personal information.

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# Improvement Schedule

DESCRIPTION	Budgeted	629	5000	637	645	4565	640	1620	8830	805	TOTAL
TENANT IMPROVEMENTS ESD (Draw 1 of 3 - Total Ti: \$360,000) ESD (Draw 2 of 3 - Total Ti: \$360,000) ESD (Draw 3 of 3 - Total Ti: \$360,000)	August						\$ 120,000.00				\$ 120,000.00
	September						\$ 120,000.00				\$ 120,000.00
	October						\$ 120,000.00				\$ 120,000.00
LANDLORD WORK Floors 1-4 (Draw 1 of 3 - Total Landlord Work: \$1,351,965) Floors 1-4 (Draw 2 of 3 - Total Landlord Work: \$1,351,965) Floors 1-4 (Draw 3 of 3 - Total Landlord Work: \$1,351,965)		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 360,000.00	\$ -	\$ -	\$ -	\$ 360,000.00
	July						\$ 450,654.75				\$ 450,654.75
	August						\$ 450,654.75				\$ 450,654.75
Landlord Work - Vets Landlord Work - Commissioners	September						\$ 450,654.75				\$ 450,654.75
	August						\$ 77,842.88				\$ 77,842.88
	August						\$ 153,926.07				\$ 153,926.07
Capital Maintenance (Draw 1 of 3 - Total Landlord Work: \$190,879)	August		\$ 63,626.13								\$ 63,626.13
Capital Maintenance (Draw 2 of 3 - Total Landlord Work: \$190,879)	September		\$ 63,626.13								\$ 63,626.13
Capital Maintenance (Draw 3 of 3 - Total Landlord Work: \$190,879)	October		\$ 63,626.13						\$ 50,000.00		\$ 63,626.13
Landlord Work - West Seattle DOL	August										\$ 50,000.00
TOTAL: Tenant Improvements		\$ -	\$ 190,878.38	\$ -	\$ -	\$ -	\$ 1,583,733.20	\$ -	\$ 50,000.00	\$ -	\$ 1,824,611.58
BUILDING IMPROVEMENTS Demo Floors 1-4 (Draw 1 of 3 - Total: \$300,000) Demo Floors 1-4 (Draw 2 of 3 - Total: \$300,000) Demo Floors 1-4 (Draw 3 of 3 - Total: \$300,000) Roof Replacement Fluid Cooler Replacement (50% Down) Fluid Cooler Replacement (Final) Roof Replacement (Draw 1 of 2 - Total \$185,000) Roof Replacement (Draw 2 of 2 - Total \$185,000) Roof Replacement for 640 lower roof Building Envelope Repairs from mold issue	August	\$ 100,000.00									\$ -
	September	\$ 100,000.00									\$ 100,000.00
	October	\$ 100,000.00									\$ 100,000.00
	August							\$ 165,000.00			\$ 165,000.00
	August	\$ 400,000.00									\$ 400,000.00
	September	\$ 400,000.00								\$ 92,500.00	\$ 400,000.00
	August									\$ 92,500.00	\$ 92,500.00
	September						\$ 100,650.00				\$ 100,650.00
	October						\$ 150,000.00				\$ 150,000.00
	September										\$ -
		\$ 1,100,000.00	\$ -	\$ -	\$ -	\$ -	\$ 250,650.00	\$ 165,000.00	\$ -	\$ 185,000.00	\$ 1,700,650.00
Leasing Commissions 640 Bldg - Lease Commission-ESD 4565 Bldg - Lease Commission-DSHS/DVR 4565 Bldg - Lease Commission-Dept. Svcs Blind											
							\$ 170,838.33				\$ 170,838.33
						\$ 17,653.73					\$ 17,653.73
						\$ 9,581.91					\$ 9,581.91
TOTAL: Capital Costs		\$ -	\$ -	\$ -	\$ -	\$ 27,235.64	\$ 170,838.33	\$ -	\$ -	\$ -	\$ 198,073.97
		\$ 1,100,000.00	\$ 190,878.38	\$ -	\$ -	\$ 27,235.64	\$ 2,365,221.53	\$ 165,000.00	\$ 50,000.00	\$ 185,000.00	\$ 4,083,335.55

# Receivership Letter

Date: July 21, 2016

To: David Bornheimer, Senior Vice President, Midland Loan Services as servicer for Plaintiff, Wells Fargo Bank N.A. as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1 Commercial Pass-Through Certificates, Series 2005-MCP1 Plaintiff, U.S. Bank, N.A., as Successor-Trustee to LaSalle Bank National Association, as Trustee for the benefit of the Certificate Holders of Commercial Mortgage Pass-Through Certificates, Series MCCMT 2004-C2 D  
Defendant, CDC Properties I, LLC  
And Interested Parties

From: Edward Velton, Receiver, JSH Properties, Inc.

Re: CDC Properties I, LLC, Cause No. 16-2-10797-4-KNT  
**Receiver's Monthly Report: June 2016**

Procedural Background:

On May 19, 2016, pursuant to the request by Wells Fargo Bank N.A., as Trustee for the Registered Holders of Merrill Lynch Mortgage Trust 2005-MCP1 Commercial Pass-Through Certificates, Series 2005-MCP1 ("Wells Fargo") and U.S. Bank, N.A., as Successor-Trustee to LaSalle Bank National Association as Trustee for the Benefit of the Certificate Holders of Commercial Mortgage Pass-Through Certificates, Series MCCMT 2004-C2 ("U.S. Bank" and collectively with Wells Fargo, "Plaintiffs"), this Court entered an Order Appointing Custodial Receiver (Order), under which JSH Properties, Inc. (Receiver) was appointed custodial receiver to take charge of the assets relating to the properties:

- 1620 South Pioneer Way, Moses Lake, Washington 98837
- 805 S. Mission Street, Wenatchee, Washington 98801
- 629 Woodland Square Loop SE, Lacey, Washington 98503
- 637 Woodland Square Loop SE, Lacey, Washington 98503
- 640 Woodland Square Loop SE, Lacey, Washington 98503
- 645 Woodland Square Loop SE, Lacey, Washington 98503
- 4565 7<sup>th</sup> Avenue South, Lacey, Washington 98503
- 5000 Capitol Boulevard, Tumwater, Washington 98502
- 8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106

Receivership commenced on May 19, 2016. In accordance with Paragraph 3.4.2 of Order, Receiver submits the following report for May 2016.

Receivership Property:

The Properties over which Receiver has been appointed are as follows:

- 1620 South Pioneer Way, Moses Lake, Washington 98837  
Type: Office  
Tenant: Vacant  
Occupied: 0%
- 805 S. Mission Street, Wenatchee, Washington 98801  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Social Health Services)  
Occupied: 100%
- 629 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: Vacant  
Occupied: 0%
- 637 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Corrections)  
Occupied: 100%
- 640 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: 1 Tenant (State of Washington, Employment Security Department)  
Occupied: 96.6%
- 645 Woodland Square Loop SE, Lacey, Washington 98503  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Licensing)  
Occupied: 100%
- 4565 7<sup>th</sup> Avenue South, Lacey, Washington 98503  
Type: Office  
Tenant: 3 Tenant (State of Washington, Gambling Commission, Department of Social Health Services, and Department of Services for the Blind)  
Occupied: 87.6%
- 5000 Capitol Boulevard, Tumwater, Washington 98502  
Type: Office  
Tenant: 1 Tenant (State of Washington, Office of the Insurance Commissioner)  
Occupied: 100%
- 8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106  
Type: Office  
Tenant: 1 Tenant (State of Washington, Department of Licensing)  
Occupied: 100%

Status of Receivership:

1. Bond: Upon appointment Pursuant to Paragraph 3.2 of Order, Receiver posted a bond with Farmers Insurance Group in the amount of \$10,000, Bond No. #LSM0785717, issued by RLI Insurance Company.
2. Bank Account: Pursuant to Paragraph 3.4.1 of Order, Receiver established a bank account, at Umpqua Bank, Bellevue, WA branch (#XXXXXX4077). As of June 30, 2016, the bank account balance was \$414,079.33.

<u>JUNE 2016</u>	Debit	Credit	TOTAL
Deposits:			
- Deposit from Tenants	\$ 367,873.31		
- Owner Contribution	\$ -		
TOTAL Deposits	\$ 367,873.31		<u>\$ 367,873.31</u>
Withdrawals:			
- Receiver Fee		\$ 5,400.00	
- Operating Expenses		\$ 120,596.99	
- Utilities		\$ 44,430.64	
- Other Expenses		\$ -	
- Gen & Admin		\$ 1,804.04	
TOTAL Withdrawals		\$ 172,231.67	<u>\$ 172,231.67</u>
NET INCOME			<u>\$ 195,641.64</u>
ADJUSTMENTS			
- Tenant Improvements		\$ 706.26	
- Owner Contributions	\$ 214,340.14		
TOTAL Adjustments			<u>\$ 213,633.88</u>
MONTHLY CASH FLOW	JUNE 2016		<u>\$ 409,275.52</u>
BEGINNING CASH BALANCE			\$ 4,803.81
ENDING CASH BALANCE			\$ 414,079.33

3. Receiver's Counsel: Pursuant to Paragraph 3.3.5 of Order, Receiver hired counsel to assist Receiver in this matter. Receiver's counsel is Charles E. Shigley of Alston Courtneage and Bassetti LLP, located at 1420 – 5<sup>th</sup> Avenue, Suite 3650, Seattle, WA 98101.
4. Appointment of Jennifer Bell as Property Manager: To assist Receiver, Jennifer Bell has been appointed as the senior property manager (PM) for the portfolio. Jennifer has over twenty years of experience in commercial property management.

5. Operations and Maintenance

Site inspections of properties revealed numerous deferred maintenance items. The comprehensive list of deferred maintenance items are in the 2016 operating budget that was submitted on July 6, 2016.

The following maintenance items have been scheduled in June and are anticipated to be completed and paid for in the month of July.

○ **1620 Pioneer Way, Moses Lake, Washington 98837**

- Locks & Security – Rekeyed all building exterior doors that contained key ways.
- HVAC R&M – Miscellaneous repairs to Unit 9, 18 15, 17, 10, 11 & 19. Repairs to include new compressor, fan motor, refrigerant and belts. Performed preventative maintenance on all of the rooftop HVAC units.
- Electrical R&M – Removed abandoned low voltage cabling. Repaired some of the electrical due to it not meeting code and potentially being a fire hazard. Removed power poles and associated low voltage cabling and changed all burnt out lamps and non-functioning ballasts.
- Fire Safety R&M – Replaced the fire alarm control panel, installed a new alarm panel and installed a new annunciator panel. Tested and tagged all past due fire extinguishers. Performed a fire alarm panel test.
- Landscape R&M – Prepared seed bed and re-seeded the turf with blue grass and perennial rye. Thatched and aerated the turf. Hauled and removed trash containers, concrete table/benches. Removed seven (7) dead plum trees, pruned shrubs, weeded/barked beds and activated the irrigation system.

○ **805 S. Mission Street, Wenatchee, Washington 98801**

- Landscape Maintenance – Initial cleanup of property (weed, prune, trim and remove debris).
- HVAC R&M – Reset all Carrier economizers and mechanical cooling and ensure that all damper motors are functioning. Purchased HVAC supplies (filters, evaporator coil and v-belt). Changed filters, belts and cleaned the coils on the rooftop HVAC equipment.
- Fire Safety R&M – Replaced fire alarm control panel, pull stations, smoke detectors and horn strobes. Conducted the annual fire alarm panel test, wet pipe fire sprinkler test and backflow assembly test.

○ **629 Woodland Square Loop SE, Lacey, Washington 98503**

- Landscape Maintenance – Clean-up in West parking lot (prune trees/shrubs, remove selected shrubs, spray vegetation, rake/dispose leaves in planting bed and blow parking lot). Installed 20 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
- Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-striped the parking lot.
- Fire Safety R&M – Annual wet sprinkler test.
- Roof Maintenance – Includes painting of rusted sheet metal flashings and painting of rusted gas line.
- Elevator – Commenced Labor of Industries code work to remove the red tag.

- **637 Woodland Square Loop SE, Lacey, Washington 98503**
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-stripped the parking lot.
  - Fire Safety R&M – Annual wet sprinkler and backflow assembly test.
  - Landscape Maintenance – Pruned old ivy growth, installed 15 yards of bark, irrigation start up and sprinkler head repairs for the turf area and beds around the building.
  - Roof Maintenance – Installed missing rise block protection pads.
  
- **640 Woodland Square Loop SE, Lacey, Washington 98503 (640/4565 have a shared HVAC plant)**
  - HVAC – Replaced sheaves and belts for both fan motors on Fluid Cooler #1 and Fluid Cooler #2; Cleaning of Fluid Cooler #1 and Fluid Cooler #2; Installed additional seismic bracing on the condenser water piping; Repairs to HVAC Unit #1-#7 (1<sup>st</sup> Floor)
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-stripped the parking lot.
  - Fire Safety R&M – Annual wet sprinkler and backflow assembly test.
  - Landscape Maintenance – Pruned old ivy growth, installed 50 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
  - Consulting Services – OAC has been contracted to investigate the source of water intrusion and provide a report with their findings. Coordination with PBS Engineering & Environmental will take place for the remediation and permanent fix.
  - Consulting Services – PBS Engineering & Environmental has been contracted to assess conditions fungal abatement spec.
  
- **645 Woodland Square Loop SE, Lacey, Washington 98503**
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-stripped the parking lot.
  - Landscape Maintenance – Installed 10 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
  - Roof Maintenance – Painted existing gas line and install block pads under gas/electrical conduit to provide membrane protection.
  
- **4565 7<sup>th</sup> Avenue SE, Lacey, Washington 98503 (640/4565 have a shared HVAC plant)**
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-stripped the parking lot.
  - Landscape Maintenance – Pruned old ivy growth, installed 55 yards of bark, irrigation start-up and sprinkler head repairs for the turf area and beds around the building.
  - Fire Safety R&M – Annual fire extinguisher and backflow assembly test.
  - Roof Maintenance – Applied sealant to storm collar and top of pipe; reseal and paint duct work.

- **5000 Capitol Boulevard, Tumwater, Washington 98502**
  - Roof Maintenance – Installed block pad and painted rusted gas line on the roof.
  - Fire Safety R&M – Performed annual wet sprinkler, backflow assembly and fire extinguisher test.
  - Parking lot/Grounds – Cleaned catch basins and jetted lines (storm drain cleaning). Swept the parking lot and re-striped the parking lot.
  - HVAC R&M – HVAC compressor was replaced for one of the rooftop units.
- **8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106**
  - Fire Safety R&M – Performed annual fire extinguisher test.

6. Site Visits:

Property management site visits to the properties are as follows:

- 8830 25<sup>th</sup> Avenue SW, Seattle, WA – June 15<sup>th</sup>
- 805 S. Mission Street, Wenatchee, WA – June 13<sup>th</sup>
- 1620 S. Pioneer Way, Moses Lake, WA – June 14<sup>th</sup>
- Lacey and Tumwater Properties – June 2<sup>nd</sup>, 6<sup>th</sup>, 10<sup>th</sup>, 16<sup>th</sup>, 20<sup>th</sup> and 24<sup>th</sup>

7. Management of Property:

Pursuant to Paragraph 3.3.4 of Order, on June 3, 2016, Receiver/PM submitted a 30-day draft budget to Midland Loan Services, a PNC Real Estate business. A draft budget for July 2016 through December 2016 was submitted to Midland Services on July 6<sup>th</sup>.

8. Marketing/Leasing of Property:

Pursuant to Paragraph 3.4.4 of Order, Receiver is authorized to market the Property to obtain new tenants for current vacant space(s) and discuss renewal options.

- **1620 S Pioneer Way, Moses Lake, Washington 98837**  
Vacant – We have initiated discussions with the Moses Lake school district who is interested in leasing the building as an early learning center.
- **629 Woodland Square Loop SE, Lacey, Washington 98503**  
Vacant – Working to bring the building to a leasable condition before offering to tenants.
- **640 Woodland Square Loop SE, Lacey, Washington 98503**  
Employment Security Department – Lease has been renewed as follows:  
Term: 5 Years (07/01/2016 – 06/30/2021)  
RSF: 70,449  
Rent: \$113,892.55 per month <sup>(1)</sup>

<sup>(1)</sup> The Lessee shall not be required to pay the rental rate increase referenced in Paragraph 4 above until all of the work requested by Lessee in Additional Lease Provision paragraph 19 has been completed by Lessor. Until all such work is completed and approved by Lessee, the rate of \$113,360.17 per month, as required under SRL 11-0037 shall continue in effect.

- **645 Woodland Square Loop SE, Lacey, Washington 98503**  
Department of Licensing - Tenant has requested parking lot repairs. Tenant wants to discuss a five (5) year extension. Additional deferred maintenance remediation will be required. Tenant is developing a scope of work.
  
- **4565 7<sup>th</sup> Avenue South, Lacey, Washington 98503**  
Gambling Commission – Tenant is relocating to a nearby building. They want a larger 1<sup>st</sup> floor space for their gambling lab. Tenant has requested a six-month extension while their new space is completed.  
DSHS-DVAR – Tenant is proposing six months free rent. Landlord to remedy deferred maintenance. We expect to focus on this extension later this week.  
Department of Services of the Blind – Tenant is requesting a five (5) year extension. Tenant hasn't made a proposal other than requiring Landlord to remedy deferred maintenance. This extension will become a priority this week after we complete the Insurance Commissioner and EDS leases.
  
- **5000 Capitol Boulevard, Tumwater, Washington 98502**  
Office of the Insurance Commissioner – Lease is negotiated and work is priced. Lease renewal is with Lender for approval.
  
- **8830 25<sup>th</sup> Avenue SW, Seattle, Washington 98106**  
Department of Licensing – Landlord is working on completing the Deferred Maintenance List that is attached to the last lease renewal that was signed in March 2016.

Dated this 21<sup>st</sup>, day of July, 2016



By:

\_\_\_\_\_  
Edward Velton  
Receiver

Encl: As stated

# Appraisers' Experience Data



**David M. Chudzik, Ph.D., MAI**

Vice President

Valuation Advisory Services

## CAREER SUMMARY

Since joining Kidder Mathews' Valuation Advisory Services in October of 2004, David has provided valuation and consultation services for a wide variety of commercial property types including office, industrial, retail, multi-family, hospitality, marina and development properties. His experience includes complex properties like biotechnology research facilities, data centers, sawmills, shipyards, and other specialized property types. He has performed biotechnology valuation and market analysis on a national basis and authored the National Biotechnology Real Estate Market Analysis for GVA Worldwide. Assignments have included valuation of leasehold interests, air rights, condemnation compensation, conservation easements as well as market rent studies.

David's professional experience includes venture capital investing with emphasis in the life sciences industry. He has also worked as a development analyst and project manager at Seattle area real estate development companies. His development experience includes multi-family residential, commercial office, and marina developments.

David brings unique qualifications to real estate valuation and consulting making him well-qualified in the analysis of some of the most complex and sophisticated real estate.

601 Union St, Suite 4720  
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dchudzik@kiddermathews.com

## EDUCATION

- Doctor of Philosophy, Biochemistry, University of Washington
- Master of Business Administration, Management, University of Washington
- Bachelor of Science, Biochemistry, University of Washington
- Bachelor of Arts, Spanish, University of Washington

## PROFESSIONAL LICENSES

- Washington Certified General Real Estate Appraiser (No. 1102099)
- Oregon Certified General Real Estate Appraiser (No. C00182)

## AFFILIATION

Member of Appraisal Institute (MAI)

## David Chudzik, Ph.D., MAI continued

### PARTIAL CLIENT LIST

Allstate Life Insurance Co.	KeyBank	Puget Sound Bank
Alexandria Real Estate Equities	King County	Puget Western
Archdiocese of Seattle	Low Income Housing Institute	San Juan County Land Bank
Bank of America	Memorial Medical Center	Schnitzer West
BECU	Merrill Lynch	Seattle BioMed
Bloch Properties	Morgan Stanley	Seattle Monorail Project
Citibank	Morton McGoldrick, PS	Server Farm Realty
City of Seattle	Moss Adams	Stockbridge Capital Group
City of Renton	National Real Estate Advisors	Todd Shipyards
Davis Wright Tremaine	Nexus Properties	Unico Properties
East West Bank	Northwest Diabetes Research Center	Union Bank
First Sound Bank	Northwest Kidney Center	University of Washington
First Mutual Bank	Novartis	US Bancorp
GE Capital	Olympus Real Estate Partners	Vulcan Real Estate
H5 Capital	Overlake Medical Center	Washington Federal
Heritage Bank	Perkins Coie	Washington Trust Bank
Jefferson County	Port of Port Townsend	Wells Fargo
JPMorgan Chase Bank	Portland State University	

# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

**CERTIFIED GENERAL REAL ESTATE APPRAISER**

**DAVID MATTHEW CHUDZIK**  
**7047 51ST AVENUE NE**  
**SEATTLE WA 98115**

**1102099**

License Number

**03/17/2011**

Issued Date

**11/02/2018**

Expiration Date

*Pat Kohler*  
Pat Kohler, Director



**Crosby Nordblom**  
Associate Appraiser  
Valuation Advisory Services

## CAREER SUMMARY

Crosby Nordblom is an associate appraiser that joined the Valuation Services division of Kidder Mathews in November of 2015.

Prior to joining Kidder Mathews, Crosby worked for CBRE Group, Inc. in Seattle where he started off in commercial property management.

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crosbyn@kiddermathews.com  
.....

## EDUCATION

Bachelor of Arts, Economics, Colorado College

## STATE CERTIFICATION

Crosby is a registered real estate appraiser trainee in Washington State (License No. 1001854).

## APPRAISAL COURSEWORK

- Uniform Standards of Professional Appraisal Practice, Appraisal Institute – 2015
- Basic Appraisal Principals, Appraisal Institute – 2015
- Basic Appraisal Procedures, Appraisal Institute – 2015
- Supervisor-Trainee Course for Washington, McKissock – 2015

## PROFESSIONAL AFFILIATIONS

- Practicing Affiliate of the Appraisal Institute, Member No. 593374

# STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION

THIS CERTIFIES THAT TRE PERSON NAMED HEREON IS AUTHORIZED, AS PROVIDED BY LAW, AS A



STATE REGISTERED REAL ESTATE APPRAISER TRAINEE

CROSBY VAN CURAN NORDBLOM  
503 N BOWDOIN PLACE  
SEATTLE WA 98103

Cert/Lic No.  
1001854

Issued Date  
12/23/2015

Expiration Date  
02/28/2017

Pat Kohler  
Pat Kohler, Director